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# **ELEMENTARY ECONOMICS**

**( PART II )**

**( Indian Economics )**

**By**

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ELEMENTARY ECONOMICS  
PART II

shall round up the whole discussion with an examination of the various activities undertaken by the state in India, including the problems of public finance, the problems of economic planning etc. The scope of the subject is thus very wide. Indian economics is not only a positive study, it is also a normative science wherein we analyse the various alternative proposals for the reform and improvement of the economic organisation.

## CHAPTER 2

### NATURAL RESOURCES

We shall now study the natural resources of India. These form the basis of all economic activities. The wealth of a country depends on the natural resources available in that country, and on the efforts made by the people in utilising those resources. There are places where Nature is so bountiful in her gifts that a small effort will yield a large produce. On the other hand, there are places like the Sahara desert, where Nature is so unkind that a civilised life is impossible. Much depends, therefore, on the geographical location of a country, its soils and minerals, its climate and other factors.

What are the natural resources of India ? India has an area of 1.26 million square miles almost equal to Europe without Russia and France. Huge in size, she is also advantageously situated as she stands at the centre of important trade routes both from Europe and the Far Eastern countries. She can trade easily with Japan and China, Iran and Russia, Egypt and South Africa, England and France. She has about 4,300 miles of coast line. But unfortunately, she possesses only a few good harbours. As a result, the number of good ports is small, and the bulk of her foreign trade is conducted through three ports,—Calcutta, Bombay, and Madras. In recent times other ports have been opened.

**Natural Divisions** Geologically, India has been divided into three distinct parts. At the extreme north stand the *Himalayas*, containing the tallest mountains in the world. The contribution of the Himalayas to the Indian economic life is immense. The Himalayan

Himalayas

mountains affect the climate as they protect India from the dry winds of central Asia, and also prevent the moisture bearing clouds of the Indian ocean from going further north. The perpetual snows of these mountains feed the great rivers of India. In this way the Himalayas help in fertilising our soil. There are large areas of forests in these hills. There are numerous waterfalls in the Himalayas. When these are properly utilised for generating hydro electricity, way would be open for large scale development of industries and agriculture in

our country. These supply us with valuable timber like deodar, fir etc.

Indo-Gangetic plains

Below the Himalayas lie the vast *Indo Gangetic* plains, stretching between the Himalayas and the Vindhya Hills. This area contains rich, fertile soils of high agricultural value, fed by the waters of three great rivers. Almost every kind of agricultural produce is grown in these parts,—wheat, millet, barley, sugar cane, oilseeds, rice and jute, etc. This area has been the home of Aryan civilisation, and is now regarded as one of the most important agricultural regions of the world. The remaining portion, which is the oldest part of India, is called the *Deccan plateau*. Its shape is like

an inverted triangle, two sides of which contain two mountain ranges,—the Eastern and Western Ghat mountains. It also grows a large variety of agricultural crops, and is rich in mineral products.

Deccan plateau

**Soils** A study of the composition of soils of a country is highly important. The character of soils determines to a large extent the development of agriculture. India contains three important varieties of soils. Most important of them are the *alluvial soils*, formed by the

Alluvial soils



alluvian deposits of the great rivers. These soils are found in the greater part of W Bengal Assam UP, Gujarat, Rajasthan, the Punjab and the Eastern and Western coast strips of the Deccan. These soils are very rich in chemical composition, and are agriculturally the most important. With a well distributed rainfall, they can grow a large variety of crops.

The next important variety is the *trap soils*. These extend over practically the whole of the Deccan and the greater part of Bombay Berar the Western part of the Madhya Pradesh and Hyderabad. These soils are suitable for growing a large variety of crops like wheat, millets pulses cotton etc. *Black cotton soils* fall in this group. These are called black because of their colour and grow large amounts of cotton. This variety of soil is found in a large part of the Deccan Bombay, Berar Hyderabad the Madhya Pradesh. It is very suitable for the growth of cotton. A large variety of crops like wheat jowar bajra and pulses is also grown in these soils.

The third variety is known as the *crystalline soils*. These cover almost the whole of Madras Mysore south east portion of Bombay the eastern part of the Madhya Pradesh and Hyderabad. These soils differ widely in chemical and physical properties. These are however not so fertile as the former two varieties and are generally poor in chemical properties. With a good water supply, these can grow rice and other crops.

Nature has thus blessed India with different types of soils suitable for the growth of almost all kinds of foodstuffs and raw materials. But unfortunately there is one important defect. The soils are comparatively

dry and therefore require a good supply of water. The natural source for the supply of water in India is the monsoons. It is necessary therefore, to study the character and the importance of monsoons.

**Monsoons** The literal meaning of "monsoons" is the reversal of air currents. In ordinary language, the word refers to the moisture laden winds which come over India from the Indian ocean during certain periods of the year and which fall as rains over these places. India has two monsoons — the South West S W Monsoon and the North East monsoon. The *South West monsoon* blows over India from the month of June to September. It comes in two currents, the Arabian sea Current and the Bay of Bengal Current. The Arabian Sea Current supplies rains to Bombay, the Punjab and the Madhya Pradesh. The Bay of Bengal Current gives rainfall to Assam, W engal, Bihar, Orissa and the UP. This monsoon is economically the most important as it supplies nearly 90 per cent of the total rainfall in India. The *North East monsoon* gives rainfall during N E Monsoon the winter. As these currents come from the land, they do not contain much moisture. Hence they supply barely 10 per cent of the total rainfall, mostly to Madras, Berar, Hyderabad, the Punjab and some parts of the Madhya Pradesh and Bombay.

The monsoons do not supply the same quantity of rains to the different parts of India. Some parts like Assam, eastern and lower Bengal, the western coast strips usually get large amounts of rainfall. Cherrapunji in Assam gets 460 inches of rainfall throughout the

*Monsoons do not supply rains equally to all parts*

year West Bengal, Bihar, Orissa and the U P. get about 70 inches of rainfall On the opposite side, there are places which scarcely get any rains Western Rajasthan belongs to this group Cultivation is impossible in these places without irrigation Other places stand midway between these two extremes Areas of uncertain rainfall Bombay (excluding the Western Ghats) Ajmer, Baroda, the region from Amritsar to Allahabad get about 10 to 30 inches of rainfall

The serious trouble with the monsoons is that, like a capricious mistress, they are "unreliable and full of tricks" One can never be sure whether the mistress is in kind moods, showering blessings upon everybody, or in one of her worst moods In one year it may rain too much and the next year there may be too little rains One year the rains may come early, and take a hasty departure Next year they may come early, but linger a long time like an unwelcome guest You never know where you stand with the monsoons That is why the whole country with its perspiring population and the thirsty lands anxiously awaits the arrival of the monsoons Will the rains fall timely, and in sufficient quantities ? So much of India depends on those drops of water

**Economic effects of monsoons** This is obvious when one remembers that the vast majority of the people are agriculturists The soils of India are comparatively dry and require a good water supply Good rainfall increases the prosperity of every body, e.g. cultivators, Zemindars Some crops like rice and sugar cane need a large amount of water Good monsoons mean an abundant supply of water for these crops Smiling crops bring joy to the heart of the work-worn cultivator He

will have enough for his family The Zemindar and the moneylender will be happy too, as they will collect their dues without difficulty The cultivator has now more money He will spend freely He will

Manufacturers buy sarees for his wife and a dress for his baby The manufacturing industries will, therefore, prosper as these will be able to sell more goods to the cultivators The jute mill owner will get more jute, the sugar factory will

Merchants have sugar cane, the cotton mills will purchase raw cotton,—all in sufficient quantities at comparatively low prices The merchants engaged in the export trade will be glad as they can send large quantities of jute, raw cotton

Railways and other crops to foreign countries The railways carry more goods and so earn good profits, a large part of which goes to the government The government gets more revenues as the trade and industries expand

Government and agriculture flourishes The prosperity of every Indian is linked with the monsoons

Though good rainfall means prosperity, there is hardly a year when at least a partial failure of rains does not occur in some part or other of this vast land *If the rains do not come, it is a bad day for everybody*

Poor crops mean poor cultivators The masses whose incomes have fallen will not buy the manufactured goods The industries will, therefore, suffer The export trade will fall off as there are no crops to send The railways earn less than before The government suffers seriously They will have to grant remissions of land revenue to the cultivators who are unable to pay

Effect of a failure of monsoons

anything. They will get smaller revenue from the railways and the customs. On the other hand, their expenditure will increase as they will have to spend money in giving relief to the famine stricken population. The budget of the government, therefore, depends upon the monsoons. No wonder that everybody in India looks to the sky during the hot season.

**Mineral Resources** We shall next study the available resources of our country. The economic importance of a country depends, to a great extent, on the minerals located in that country.

Our principal minerals are coal, iron, manganese, mica, copper, gold, oil, salt, limestone, etc.

We produce every year about 36 million tons of coal. This is not a large output. The consumption of coal per head in India is only 07 tons as against 4.75 tons in the U.S.A. The latter country produces 456 million tons every year. The Draft Second Plan proposes to raise the output of coal to 60 million tons per year. About 82 per cent of the output is produced in Bihar and West Bengal, and the most important mines are located at Jheria, Ramgani, Giridih and Daltonganj. The other important sources are the Singaram mines in Hyderabad, the Madhya Pradesh, Madhya Bharat, and Assam. Small amounts of inferior quality coal are also produced from the mines of the Punjab. It has been estimated that the total amount of coal contained in the mines will last us, at the present rate of consumption, for about 225 years more. Hence it is necessary to conserve the use of coal. The main trouble is that practically all coal is concentrated in the eastern parts of India, the western and southern parts do not possess any mine. The importance of coal for industrial purposes is obvious. Coal and iron

lie at the basis of all industries. Coal provides the power which drives the railways, steamships, the steam engines, etc. England's industrial supremacy has been due to a large extent to her possession of coal. The might of Germany was built round coal and iron.

India possesses the world's largest reserve of high grade iron ore. These ores are chiefly found in Singh

Iron

bhum, Keonjhar, Bonai and Mayurbhanj States of Orissa, Barakar in Bengal.

The Madhya Pradesh, Bombay, Mysore,

Madras and the Madhya Bharat also possess ores of good quality. At the present moment, only the ores in Orissa, Bihar, W. Bengal and Mysore are being worked, others cannot be worked owing to the absence of coal and limestone in the neighbourhood. We produce annually 2,00,000 tons of pig iron and the output is increasing every year. The Draft Second Plan proposes to increase the output of pig iron to 7 lakh tons per year. A portion of the output of pig iron is exported to other countries. The iron and steel industry which is built round iron ores and coal is one of the most important basic industry. The development of all other industries is dependent to some extent on this industry. In spite of such resources, our actual output of steel is small. We produce about 2% of the world's output as against 40% produced by the U.S.A. The Draft Second Plan has provided for increasing the output of finished steel from 1.3 million tons in 1955-56 to 4.5 million tons in 1960-61.

India is one of the two main producers of *Manganese* in the world, the other country being Russia. The

Manganese

principal deposits are found in the

Madhya Pradesh, Bihar, Orissa, Mysore,

Madras and Bombay also contain large

deposits. It is used chiefly in glass making, and in the

production of steel, heavy chemicals and electrical goods. Though Indian ores are richer than the Russian ores, no serious attempt has been made to utilise the ores for manufacturing purposes. These are unfortunately exported in the raw state to foreign countries. The output of manganese is also to be increased from 1.4 million tons in 1955-56 to 2 million tons in 1960-61.

India is the world's largest producer of *mica* which is essential in the electrical industry, in wireless telegraphy, motor transport, steam engines, etc. The chief sources of production are the Hazaribagh, Gaya, Munghyr districts and Giridih in Bihar where 80 per cent of the world's requirement of better grade mica is produced. This area supplies nearly 80 per cent of the world's requirement of better quality mica. The other sources are Nellore in Madras and Rajasthan. But as in the case of manganese, mica is exported in the raw state to foreign countries. Consumption in India is comparatively small as we do not possess an electrical industry.

*Copper* is produced in Singhbhum in Bihar, but there are copper deposits in Madras, Garhwal and Almora in the U.P., and in Rajasthan. Our production of copper is, however, very small. *Gold* is produced from the Kolar fields in Mysore, and at Hutti in Hyderabad. We produce every year about 3,50,000 ounces of gold. Small quantities of *silver* are also produced in the Kolar fields. There are no known deposits of silver in India.

*Salt* is produced from the brine water of the Sambhar Lake in Rajasthan and by the evaporation of sea water in other coastal state.

*Oil* is produced in Digboi in Assam. But our oil resources are very insufficient. We do not produce even 1 per cent of the world's output of oil.

There are also good supplies of bauxite (from which aluminium is produced), chromium, ilmenite, china clay, diamond, graphite, salt petre, etc. During the Second Plan period, the production of bauxite will be increased from 80,000 tons in 1955-56 to 175,000 tons in 1960-61.

This survey shows that we are not so fortunate in minerals. We do not produce, for example, lead, zinc, tin, nickel, wolfram, etc. Petrol is practically non-existent. But no country in the world is self-sufficient in all the minerals. Our position is favourable with regard to the basic metals, like iron, manganese, mica, bauxite, etc. Another serious defect is that Indians have taken very little part in developing these minerals.

**Power resources** Power is mostly derived from coal, oil or water falls. We already know our coal and oil resources. The difficulty with our coal is that it is not evenly distributed over the whole country. With regard to oil, we do not possess any important oil fields. Our total production of oil in Digboi is scarcely equal to 1 per cent of the world output. Efforts should be made to remedy this defect by producing power alcohol from molasses, a by-product of white sugar, and to manufacture synthetic petrol from low grade coal. The other important source of power is *hydro electricity*. At the present moment, *hydro electric power* has been developed in the following places, Bombay contains three greatest hydro electric undertakings,—the Tata Hydro



electric Power Supply Co, the Andhra Valley Power Supply Co, and the Tata Power Co Ltd, all operated by Tata Sons and Ltd. In Madras, there are three undertakings, the Pykara Scheme, the Mettur Hydro electric Scheme, and the Papanasam Hydro electric Scheme. The Mettur Stanley Dam constructed in connection with the second scheme, is one of the largest structures of its kind in India. In the Punjab, the government is operating the Mandi Hydro electric Scheme, and is supplying electricity to about 60 towns and villages. In the U P, the Ganges Canal Hydro-electric Grid supplies power at cheap rates to some 93 towns in 4 districts in the west of the state and to Sahahdara in Delhi. The Grid also provides energy for irrigation pumping from rivers and open and tube wells. The hydro electric plant at Sivasamudram in Mysore supplies electricity to the Kolar gold fields, Mysore and Bangalore cities and 2,000 other towns and villages in Mysore. The Kashmir Durhar has also established another plant on the river Jhelum. The Hyderabad State has also started several hydro electric schemes. But on the whole, the development of hydro electricity has not progressed very much. It has been estimated by experts that our resources in hydro electricity amount to about 27 million kilowatts. But uptill now our total production amounts to only 5.9 million kilowatts in 1951-52. Per capita consumption of electricity is only 7 units in India as against 2000 units in Canada, 1100 units in Sweden and 600 units in England. Even a backward country like Mexico has a per capita consumption of 120 units. Among states, Bombay is now the largest producer of hydro electricity, followed next by the Punjab, Madras and the U P. The

development of hydro electricity is essential on account of the fact that we are deficient in both coal and oil, two other sources of power. In fact, our industrial progress depends to a large extent on the development of hydro electricity. This will enable us to obtain power at a cheap rate to run the industries. There is an immense scope for the development of hydro electricity out of the many waterfalls of India. It is necessary to develop these as the supply of cheap electricity will help the development of industries. Hence it has been proposed to increase the output of electricity from 3.5 million k w for 1955-56 to 6.8 m k w in 1960-61.

**Agricultural crops** As India possesses soils and climates of almost all types, she normally grows a large variety of crops. These have been usually divided into two classes,—food crops and non food crops. In 1954-55 the total cropped area in India was 350 million acres of which food crops were grown over 270 million acres; *i.e.*, about 77 per cent is under food crops, that under commercial crops was 60 m acres, *i.e.*, about 17 per cent of the total.

**Food crops** Among the food crops, *rice* stands first as nearly 35.0 per cent of the total sown area (*i.e.*, 72.3 million acres) is cultivated under rice.

**Rice** in the different States 20.77 m acres in Bengal, 9.2 m acres in Bihar, 10.74 m acres in Madras, 7.29 m acres in the U P, 5.87 m acres in the Madhya Pradesh, about 5 m acres in Assam and Orissa, and 1.9 m acres in Bombay are cultivated under rice. It is the staple food in Bengal, Assam, Orissa and Madras. Though such a large area is devoted to rice, India's total output of rice (about 23.77m tons in 1955-56) is not sufficient for her requirements, and she has to import large quantities of rice from Burma and

other countries. She also exports small quantities of rice (about one per cent of her production) to Ceylon, Arabia and other African territories.

The next important crop is *wheat* which occupies only 10·7 per cent of the total area sown (*i.e.*, 26·84 m. areas). 9·88 m. acres in the Punjab, and 7·94 m. acres in Bombay are cultivated under wheat. India produces about 10 per cent of the world's production of wheat, occupying the fifth position in point of importance. It is the staple food in the Punjab, the U.P., Bombay, etc. India produced about 8·5 m. tons of wheat in 1954-55. Considerable quantities of wheat have to be imported from Australia, Canada, the U.S.A. and other countries.

The other food crops are *Barley* used as food both for man and cattle. It is grown chiefly in the U.P. (3·77 m. acres), Bihar (1·28 m. acres) and the Punjab. Total output was 2·8 million tons in 1954-55. Next in importance are the millets,—*Jowar* and *Bajra*. These crops are used by the masses in Madras, Bombay and Hyderabad. About 89 per cent of the total area sown (*i.e.*, about 43·4 m. acres) and 5·4 per cent (27·5 m. acres) are under *Jowar* and *Bajra* respectively. Total output was 9·0 and 3·5 million tons respectively in 1954-55. In addition, India produces large quantities of pulses like *gram*, *ragi*, *maize*, etc. She also grows a large variety of fruits, vegetables, (like potatoes, onions, cabbages, etc.), spices (like pepper, chillies, ginger, cardamom, cloves, etc., grown chiefly in South India), etc.

*Sugarcane* is another important food crop. About

3.9 m acres, *i.e.*, 1.5 per cent of the total sown area is devoted to the cultivation of cane. The chief cane-growing States are U.P. (2.51 m acres), Bihar (1.50 m acres), Punjab (1.54 m acres), W Bengal (1.33 m acres), Bombay (1.11 m acres), etc. The total output was estimated to amount to 5.0 million tons in 1954-55.

**Fibres** The non food crops consist of fibres like jute, cotton, oil seeds like linseed, groundnut, etc., tea, coffee, tobacco, etc. About 7 per cent of the total sown area is under the fibres. *Jute* is India and Pakistan's monopoly. India's output of raw jute is 3.12 m tons in 1953-54 as compared to 7.7 m tons in Pakistan. It is grown in West Bengal (about 1.20 m acres in 1953-54) and also in Bihar, Orissa and Assam. Large quantities of jute manufactures are exported to England, Germany, U.S.A., Australia, etc., while raw jute is imported from East Bengal. India also grows large quantities of *cotton*, the area devoted for it being 17.78 m acres (*i.e.*, about 5.5 per cent) in 1954-55. It is grown chiefly in Bombay (3.88 m acres), Hyderabad (3.45 m acres), Madhya Pradesh and Berar (3.57 m acres), the Punjab and Madras. India now occupies the fourth place in the world in respect of the output of cotton. Unlike American cotton, India grows mostly short stapled variety, from which finer clothes cannot be woven. India imports large quantities of cotton of both short staple and long staple variety.

**Oil seeds** India grows a large variety of oil seeds like *groundnut*, *linseed*, *sesamum*, *rapeseed*, *mustard*, *castor*, *cocoanut*, etc. 29.3 m acres (about 6.6 per cent of the total

area sown and about 37 per cent of the total area under cash crops) are under oilseeds. *Groundnut* is cultivated mostly in Madras (3 92 m acres), Bombay (1 58 m acres), Hyderabad and the Madhya Pradesh (23 m acres). *Linseed* is grown chiefly in the Madhya Pradesh (1 21 m acres) Bihar, U P, Bombay, and W Bengal. There is a large export trade in oilseeds.

*Tea* is grown chiefly in Assam, W Bengal, the Nilgiris in Madras, Dehra Dun in the U P, and Kangra valley in the Punjab. In addition, India produces large quantities of *tobacco*, *coffee*, *cinchona*, *hemp*, *indigo*, *opium*, *rubber* etc.

Thus we see that we are fortunate in our natural resources. We grow almost every variety of crops, food crops or raw materials. To the total amount of crops produced in the world India contributes 23 per cent of jute, 50 per cent of groundnuts, and 40 per cent of tea and rice, over 25 per cent of cotton, cotton seeds, wheat, and linseed.

But though we raise a large variety of crops, we do not produce much of anything. The average Japanese cultivator produced 2307 lbs of rice on each acre, the Italian farmer raised 3000 lbs of rice. But the Indian peasant obtained only 791 lbs *per acre*, about one third of that in Japan on every acre of land. Our average production of wheat per acre was only 669 lbs against 1508 lbs in Japan and 1688 lbs in Egypt. The average yield of cotton in India is about 40 per cent of

that in the USA Our efficiency in production is, therefore, very low

**Regional Distribution of the Crops** It is necessary to have some idea of the regional distribution of the more important crops *Rice* is grown mostly in Assam, West Bengal, Bihar, Orissa, Madhya Pradesh, the eastern UP, the coastal belts of Andhra and Madras and in the western coastal areas *Wheat* is grown mostly in the Punjab, Pepsu, western UP, and in some parts of Madhya Pradesh, Bihar and Bombay *Millets* are grown mostly in the Deccan plateau regions of Madras, Bombay, Hyderabad, Madhya Pradesh, eastern UP, and to some extent in Madhya Bharat and Rajasthan. *Pulses* are cultivated mainly in Bihar, Madhya Pradesh, Madhya Bharat, UP, Punjab and Rajasthan Among cash crops, cotton is grown mostly in the Deccan plateau regions, Gujarat-Kathiwar and parts of Bombay, Madhya Pradesh, Hyderabad and Madras For *oil seeds*, the main areas of cultivation are South Deccan region covering Hyderabad and parts of Bombay, Madras and Mysore, subsidiary areas are in UP, Saurashtra, and Madhya Pradesh

**Forest** Forests constitute an important natural resources About 15.6 per cent of the total area of India is under forests The distribution is uneven in different states About 41 per cent of the total area is under forests in Assam 47.7 per cent in the Madhya Pradesh; 9 to 14 per cent in W Bengal, 15 per cent in Madras; 13 per cent in the UP, and only 7 and 3 per cent in Orissa and Bihar There are wet evergreen forests of teak, blackwood, bamboos and palms in the eastern coast of the Deccan and the foot of the eastern Himalayas

*Types of  
forests*

Hill forests of deodar, pine, fir, oak, ash, etc., are found along the whole of the Himalayas. The deciduous forests of Teak, Sal, Red Sanders, Sandalwood occupy the larger part of the Deccan. The tidal forests are situated along the greater part of the coast of India.

The contribution of forests to the economic life of the country is highly important. Scientists are of opinion that forests increase the rain fall. If forests are cut down indiscriminately in any part of the country, the rainfall will decrease. It has been stated that the indiscriminate cutting down of forests is responsible to some extent for the recurrence of flood. These also increase the fertility of the soil by preventing the erosion of the upper surface. The leaves of the trees fall on the ground and are decomposed. The decomposed matter increases the fertility of the soil. They also supply raw materials to the industries, timber for wood work, firewood for fuel, bamboo for producing pulp. Lac, turpentine, resin and certain essential oils are obtained from the forests. They are also of great help to the cultivators who use the forests as grazing ground for their cattle. The government also derives a large revenue from forests.

As deforestation reduces rainfall, it is necessary therefore to conserve the forests. The government has already started a separate department for this purpose. Forests have been classified into three groups for purposes of conservation—Reserved, Protected and Unclassified. Reserved forests are very strictly conserved by the Government. Control is less strict in the protected forests. There is practically no control in the third class of forests.

It should be noted that our forest resources are not large in comparison with other countries. 53 per cent of the land in Japan, 44 per cent of the land in Russia are under forests as compared to about 15.6 per cent in India.

**Fisheries** Though fish forms an important article of diet, especially in the eastern parts of India, her fisheries have not been developed in the same way as in Japan or Europe. The potential supply is large. The sea fisheries are scarcely utilised. There are pearl fisheries at Tuticorin and in the Gulf of Cochin.

**Animal resources** India possesses a large variety of animal life. The cow and buffalo are used in agriculture and also yield milk. There are also goats, sheep, donkeys, camels. India's cattle supply is higher than that of many other countries,—about 67 cattle per 100 acres. Though India possesses some breeds of cattle (i.e., Haryana and Sahiwal of the Punjab, etc.), there has occurred a deterioration in the quality of the cattle.

This survey of our natural resources shows that nature has not been unkind to us. We possess large natural resources. But unfortunately we have not succeeded in exploiting them to our advantage. So the vast majority have remained steeped in poverty in the midst of plentiful natural resources.



## CHAPTER 3

### POPULATION IN INDIA

The people of a country constitute its best resources. It is necessary to study the total number of population, the rate of growth of population and the allied problems.

India now contains 356.5 millions or 35.68 crores of people, according to the census of 1951. The total population is divided among the states in the following way.

#### *Distribution of Population*

<i>State</i>	<i>Total Population (in crores)</i>
Andhra	20.5
Assam	9.04
Bihar	40.22
Bombay	35.95
Delhi	1.74
Hyderabad	18.65
Madhya Bharat	7.95
Madhya Pradesh	21.24
Madras	35.73
Mysore	9.85
Orissa	14.64
Pepsu	3.49
Punjab	12.64
Rajasthan	15.29
Saurashtra	4.13
Travancore Cochin	9.28
Uttar Pradesh	63.21
West Bengal	24.81

The growth of population has proceeded at different rates in different states. Between the period 1941-51, the highest increase took place in Mysore and Travancore Cochin (21.2 p.c.), while the population of the Punjab has actually declined by 5 p.c. In Bombay, it has increased by 20.8 p.c., in Madras by 18.4 p.c., in Assam by 17.4 p.c., in West Bengal by 12.7 p.c. In Orissa, Madhya Pradesh and Bihar the rates of increase are 6.2 p.c., 7.9 p.c. and 9.6 p.c. respectively.

**Density of Population** Density of population refers to the average number of people who live in an area of one square mile. At the present moment, the average density of India is 281 per sq. mile. That is, in an area of one square mile 281 people live on average in the different parts of India. Density is, however, not uniform in different parts of the country. It is as high as 3017 per sq. mile in Delhi, and as low as 98 in Himachal Pradesh.

*Density of Population*

<i>State</i>	<i>Average Density</i>
Delhi	3017
Travancore Cochin	1015
West Bengal	827
Bihar	572
U.P.	557
Madras	592
Pepsu	347
Punjab	338
Bombay	323
Andhra	322
Mysore	296
Orissa	244
Hyderabad	227
Samrashttra	193
Madhya Bharat	171
Madhya Pradesh	163
Rajasthan	117
Assam	106

These figures should be compared with those of other countries

Country	Average Density per sq mile (1937)
Belgium	710
England	703
Japan	482
U S A	43

What are the causes of this variation in the density of population in different parts of India? As India is predominantly an agricultural country, agricultural conditions are the most important influence determining the density of population. Among the agricultural conditions we have to take account of rainfall, irrigation, fertility of the soil, the configuration of the soil, the climate, etc. Population is the densest in those areas like W Bengal, where the soil is fertile, the rainfall is abundant and unfailing, the climate is good and there is much level land. It is the least in Rajasthan where the soil is not so fertile, rainfall is very insufficient and irrigation works are absent. The presence of irrigation canals increases the density of population. The district of Lyallpur in the Punjab had a density of 7 in 1891. Canals were opened in 1892 in that district, and density increased to 272 in 1911. Configuration of the soil is also an important factor. The most thickly populated areas are the level plain lands in Bengal, Bihar, the UP and the sea coasts in South India. Hilly countries contain a sparse population. Monsoons also affect the density of population to some extent. Those areas which get a good rainfall like Bengal contain the largest

population On the other hand, in areas of scanty rain fall like Rajasthan, the average density of population is usually very low Another important factor is the climatic conditions Places which are extremely un healthy contain a small population Why is it that

Assam which gets the heaviest rainfall  
Climate contain only 106 people per sq mile ?

The climate of Assam is rather un healthy and large parts of that state contain forests and hilly tracts

Density of population also depends to some extent on industrial conditions Large numbers of people live

in those places where industries have  
Growth of industries been developed Jamshedpur was a small village which contained a small

population before the iron and steel factory was established But now it contains a large population

Occupations According to the census of 1951, 69.8 per cent of the people of India live by agricultural operations The percentage of workers engaged in

industries is only 10.38 of which only  
Distribution between agriculture and industries 1.5 per cent is supported by organised industries, the rest being engaged in small unorganised industries India

has the highest percentage of people dependent on agriculture In England, only 5 per cent of the people live by agriculture and 58 per cent depend on industries

*This is one of the most serious defects of our economic life* We all know the Sanskrit Sloka which states

that Lakshmi, the Goddess of wealth,  
Too much dependence on agriculture bestows 100 per cent favours on those who engage in trade and industries and only 50 per cent on those who live by

cultivation If we are so much dependent on agriculture,

we cannot aspire to be as rich as the industrialised countries. It is necessary to reduce this excessive dependence on agriculture by the development of industries.

Our backward industrial conditions are also proved by the fact that only a small percentage of our population live in cities and towns. Only 11.0 per cent of the people live in towns against 80 per cent in England and 56 per cent in the U.S.A.

**Birth rates** The average birth rate in India is about 24.8 per 1000 of population in 1950.

This should be compared with the birth rate in other countries.

*Average birth rate*

India	1950	24.8
Australia	1949	22.9
Canada	1949	26.9
France	1949	21.0
U.K.	1950	16.1
U.S.A.	1950	23.4
Pakistan	1948	18.0

Moreover, the average birth rate has declined from 32 in 1881-91 to 15.5 in 1931 in England, and from 37 to 16 during the same period in Germany. But the rate of decline has been very slow in India. The main causes of such a high birth rate are the following. Marriage is almost universal in India. It is not only universal, but it also takes place at a comparatively early age in India. To marry their sons and daughters at an early age is regarded as a religious duty by the parents. The climate of India is also very hot, and so puberty is reached much

earlier than in other countries. The absurdly low standards of living of the masses encourage indiscreet marriages and reckless breeding of children. All these causes lead to a high rate of birth in our country. It should be noted that the birth rate was also high in England in the period 1881-91. The fall in the birth rate in the western countries in subsequent periods was the result of inter play of many social, economic and psychological factors. But in India, the social environment which has encouraged and facilitated birth control in the west, does not exist so far as the bulk of the population is concerned. Hence we cannot expect any substantial fall in the Indian birth rate in the near future.

**Death rates** The average death rate is also very high in India. 16.0 persons in every 1000 people die every year in India.

This should be compared with the death rate in some other countries.

	<i>Average death rate</i>	
India	1949	16.0
Australia	1949	9.5
Canada	1949	9.2
France	1949	13.8
U. K.	1950	11.7
U. S. A.	1950	9.6
Pakistan	1948	12.3

Thus the death rate is higher than that in the above mentioned countries. What are the causes of such a high death rate?

Large numbers of people die every year of various epidemic diseases like cholera, small pox, etc. Fevers including malaria account for a large percentage of deaths. Tuberculosis is taking an increasing toll among the population. The spread of so many epidemic

Causes of high death rates

diseases is due to the low resistance of the people. People who are poor and ill nourished, and who live in insanitary houses fall an easy prey to the various diseases. The insanitary habits of the masses are also an important cause of the wide prevalence of diseases.

Two outstanding features of death rates are the high *infant and female mortality*. The rate of infant mortality is as usual the highest in the world. In 1931-35, the rate was 171 per thousand birth as against 65 in England and 51 in Sweden. Infant mortality is particularly high in the big cities. In 1938, the rate of infant mortality was 268 in Bombay, 222 in Madras, 219 in Calcutta, while the average for urban areas was 191. One fifth to one fourth of the babies die before they are one year old, and nearly 45 per cent die before reaching the age of five. This shows a very lamentable state of affairs. The causes of such high mortality are not far to seek. Owing to the poverty of the people the children inherit a very low vitality and fall an easy prey to diseases. Secondly, insanitary habits of living and the insanitary surroundings in which the babies are born account for a large number of deaths. Thirdly, absence of well trained *dais* and midwives is also an important cause. The vast majority of the villages do not possess good doctors. No wonder that our infants die in large numbers,—“to fatten the earth which cannot fatten them.” Lastly, the abnormally high rate of infant mortality in the big cities is due to the extremely bad housing conditions prevailing in these areas. The majority of the workers who have flocked to these cities live in thoroughly insanitary dwellings like *chawls*, *bustees*, etc. This tells upon their health, and lowers

their vitality Children of weak parents naturally die an early death

The death rate among women of reproductive age (*i.e.*, 15 to 45) is also very high In India, according to a very distinguished authority, about 100 women out of every 1000 die every year Whereas female mortality is about 4 per 1000 in England and even this rate is causing anxiety in that country The main causes of such high female mortality are to be found in the following factors First, the custom of early marriage and the consequent early pregnancy saps the vitality of the young wife, which is already very low due to extreme poverty and malnutrition Hence a large percentage of the young wives die of child birth, phthisis or some such complaint Secondly the absence of skilled *daies* and good doctors in the villages is an important cause Thirdly female life is held cheaper in India than in the west Not only men, but the women themselves neglect to take proper care of their health That is why a large number of them die every year

The result of such high death rates is that the average expectation of life is only about 32.45 in India Every Indian can expect to live on average only upto the age of 32.45 whereas an Englishman expects to live upto the age of 61 and a New Zealander upto the age of 64

What is the remedy for this state of affairs ? A high birth rate combined with high infant mortality signifies a huge waste of life It is necessary to combat this waste and misery The whole question is dependent on improvements in diet and housing, in other words upon



the achievement of a higher standard of living. People, especially the mothers, must have more food and a better diet. A second necessity is more health education among the masses. The people should be given proper training in hygiene. Thirdly, more midwives should be trained and sent to the villages. Fourthly, the government and other public bodies should open maternity and child welfare centres, and inaugurate "baby weeks" to teach people to have healthy babies. Lastly, the people should be taught to avoid a rapid succession of pregnancies by the "spacing" of births in order to ensure that each child will be born healthy, and can receive proper attention from its mother.

**Population and Food Supply** In recent times, the relation between the growth in population and the food supply of our country has assumed great importance. India suffered from famine conditions in 1943. In 1946, she was threatened with another famine. This has raised the question whether the present food supply is adequate to meet the needs of the population. It is well known that India's population has been growing at a rapid rate. The numbers added to the population during 1931-41 alone exceed the total population of England and Wales. The supply of food has failed to keep pace with such a rapid growth of population. It has been estimated by the Famine Enquiry Commission that "there is a considerable section, perhaps amounting to 30 per cent of the whole population, which does not get enough to eat—i.e., is short of both energy yielding and protective foods." At present the most widely consumed food crop, rice, is in short supply. Before the last war the supplies of rice grown in our country did not meet our requirements, and the annual deficit was about, 1,750,000 tons. We are, on the whole, deficient in

cereals. It has been estimated that while we require a total of 54 million tons of cereals to feed our population, our available supplies amount to only 52.5 million tons. Even if the supply of cereals was sufficient, that will not provide a good diet. A diet largely composed of cereals does not contain enough of the nutrients required for health, and needs to be supplemented by other foods. Food experts tell us that a balanced diet for an adult per day should contain at least the following —

Cereals	14 oz	Fruits	3 oz
Pulses	3 oz	Oil and ghee	2 oz
Green leafy vegetables		Sugar	2 oz
	4 oz	Milk	10 oz
Other vegetables	6 oz	Fish, meat, eggs	3 oz

On the basis of this estimate of needs of a population of 400 millions the available supplies in India are short in the case of cereals by 10 per cent, by 20 per cent in regard to pulses, by 50 per cent in oils and ghee, by 300 per cent in milk, by 250 per cent in oils and ghee, by 300 per cent in milk, fish and eggs.

Thus not only is our available food supply insufficient, the average diet is also ill balanced. There is much under nutrition as well as malnutrition. The high infant and female mortality rates, the wide prevalence of ill health and disease are due to these factors. Diseases caused by the lack of some protective food in the diet is a very common occurrence in India. The improvement of nutrition and a substantial increase in the food supplies are, therefore, essential in the interests of the country. On account of the poverty of the masses, a well balanced and satisfactory diet is beyond the means of a large section of the population. Hence steps should be taken to increase the purchasing power in the

hands of the poorer sections. Fortunately for us, there is an immense scope for increasing agricultural production in our country. If our resources are developed vigorously, any future threat of famine can be easily removed, and standards of living and nutrition can be decisively raised.

**Growth of Population in India** According to the census of 1951, India contained 356 millions or 35·6 crores of people. Her population increased by 14 per cent during the period 1941-51. It has been stated that this rate of growth is alarming in view of the fact that we do not possess sufficient resources to support such a huge population. These people are of opinion that though the Malthusian theory of population has been falsified by the large scale development of industries in the west, it is true in the present conditions in India.

Malthus stated that population had a natural tendency to increase. This is true in India. Marriage is more or less universal in India. Of all countries in the world, India has the highest proportion of married people for both sexes. Excepting one or two countries, India has also the highest birth rate in the world, *i.e.*, 24·8 per 1000 of population. That is, every thousand people in India give birth to about 25 babies every year. Whereas in England only 15·5 babies are born per 1000 of population. Such a high birth rate shows that the population of India is growing unchecked. The preventive checks of Malthus, *i.e.* abstention from marriage, late marriage etc., are virtually absent in India. Hence population is increasing unchecked beyond the means of subsistence. Many economists are of opinion that the food supply has not increased in proportion to the growth of population in our country. Another alarming fact is that in

India the cultivated land *per capita* has been declining rather rapidly since 1921. It was 1.11 acres in 1921 and has come down to only .84 acres in 1951 as against 1.26 acres for the world as a whole and 7.41 acres in the U.S.A. Thus during the last 30 years the area of cultivated land per head has declined by about 25 per cent. It is doubtful whether such a small area of land would be enough for the support of an individual in reasonable comfort unless it is cultivated very intensively, and this is not the case in our country. As one writer\* has pointed out that between 1901 and 1931, the population has grown by 17 per cent, but the total area under cultivation has increased by only 10 per cent. If our productivity in agriculture remains the same,—and it has not changed materially,—there is no doubt that population has outgrown the available food supply. This tendency has been further accentuated between 1931-51, when the population increased by 29.7 per cent. The food supply has not increased in the same ratio. Hence there is a definite shortage of foodstuffs in the country. When this happens, nature will take a hand, according to Malthus, and carry off the surplus population. Positive checks like epidemic diseases, famines, etc., will come into operation and the death rates will be very high. This is also true with regard to India. The average death rate is very high in our country. Of every 100 people, about 16 die every year against 11 in England and 18 in Japan. Epidemic diseases like cholera and small pox are rampant in our country. Large numbers of people live on the verge of starvation. All these indicate that more people are born in our country than can be adequately supported.

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\* Dr. Gyan Chand *India's Teeming Millions*

In fairness we must point out that there are also other people\* who are of opinion that our country is not overpopulated. Our industries have made, and are making, rapid progress. The total production of wealth has, in fact, increased by a larger percentage than that of the growth of population. But high birth rates, high death rates, low standard of living, backward industrial conditions,—all these undoubtedly point to overpopulation. It is time that our entire resources should be utilised, not to support an ever increasing population at a miserable standard of living, but to increase the standard of living of all classes of people so as to give them a reasonable chance of a healthy, cultured and full life.

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\* For example, Dr P J Thomas of Madras University.

## CHAPTER 4

### THE SOCIAL ENVIRONMENT

It is often said that the social conditions and the religious ideas prevalent in India are so different from those in the west that the economic principles are not applicable to the case of India. Attention is drawn to the caste and joint family systems, and to our so called spiritualism. These are not to be found in the west. There is no caste system in the western countries to prevent a man from taking up any occupation he likes. The family is also a small affair, consisting of the husband, wife and minor children. The social conditions exercise an important influence on the economic life of a country. Since these are different from those in the west, the evolution of economic life, it is claimed, will proceed along different lines in India. Hence it is necessary to discuss the question whether these peculiarities render the Indian economic system different from that of the western countries.

**Caste system** A caste is a collection of families, professing to follow the same calling or occupation. A man belonging to a caste cannot marry in another caste. His social and domestic relations are determined by the rules of the caste into which he is born. From the economic standpoint the importance of caste system lies in the fact that according to it, birth determines the calling or profession a man must follow in his life. He must adopt his father's or the caste profession.

This has merits as well as defects. Caste means specialisation and division of labour of the simple type

All members of a caste must follow a particular business.

Merits of the system      A man who specialises in a particular task will become an adept in that work. Hence the system

increases the efficiency of labour. There is another advantage. A man knows, from the moment of his birth, the profession he will follow. So this system avoids the difficulty and the worry a man has to

face when searching for a calling or a job. Thirdly, learning a profession becomes easy and

It secures better training for apprentices      inexpensive. The children know the profession they will take up. They inherit a certain amount of skill from

their parents. The father takes a special care in teaching all the trade secrets to his children.

Mutual benefit      Hence it has ensured the proper training of the apprentices. Lastly, each

caste also acted as a mutual benefit society for its members, helping the needy in times of distress.

**Defects** It is important to remember these merits in these days when the system is almost universally

It hinders the mobility of labour      condemned. Its most serious defect from the economic standpoint is that it has carried the principle of heredity

too far. A carpenter's son *may or may not* inherit his father's skill. He may actually dislike that profession.

But under a rigid caste system he has no option but to become a carpenter. Change of occupation or the free

choice of occupations according to one's liking or ambition was not possible under the system. It has there-

It results in loss of skill      fore hindered the mobility of labour. If the prospects

in carpentry improve very much, men belonging to other castes will not be allowed to become carpenters. The supply of labour cannot thus be adjusted to the change in the demand for labour. Secondly, each caste had a monopoly of a particular business. Such a hereditary monopoly inevitably led to a deterioration in the skill of the artisans and in the quality of the products.

The caste system therefore prevented the free mobility of labour. By forcing one to follow the hereditary occupation it has discouraged initiative and enterprise. It has thus serious defects. And in this way it is an obstacle to the growth of large scale industries in our country. The system has also resulted in another defect. It has bred a sense of contempt for manual labour in the minds of the people belonging to the higher castes. This is one of the important causes of middle class unemployment in our country. Lastly, the system has been an obstacle to the growth of national feeling and unity in India. It has given rise to the problem of the depressed classes or untouchables.

It should be noted that these are the defects of the rigid caste system. But the caste system no longer exists in the most rigid form in India. At the present moment, people do easily change their caste professions. In fact the statistics of occupations in India reveal that more and more people have forsaken their hereditary business and taken up other professions. Mobility of labour has considerably increased in our country. Hence the existence of the caste system does not make the Indian economic life much different from that in the west. Even in those countries there are non-competing groups of labour, and complete mobility of labour is



more or less absent. In these countries also the son usually follows the father's profession.

**Joint family** In the western countries, a family consists of a man, his wife and minor children. But in India, a family includes, besides the above, his parents and grand parents, uncles and brothers with their wives and children. They all live together under one roof. The eldest male member is usually regarded as the head of the family who manages the family property in trust for others. Each member works and earns according to his capacity. He contributes to the common chest and shares the good things of life in common.

The ideal joint family is like a mutual benefit society. All members of the family are properly cared for, no matter whether he is sick or unemployed, young or old. The state was, therefore, saved the trouble of providing for old age pensions, poor houses or for unemployment benefits. Secondly, as many families (according to western standards) live together, the system cheapens the cost of living. Lastly, it also fosters the virtues of self discipline and self sacrifice among the members.

It has thus solved the problem of security. Everyone knows that he will be supported by other members when he becomes sick or unemployed. But the solution it has provided has given rise to grave evils. First, it has encouraged idleness among the irresponsible members and destroyed their incentive to work. It often leads to frequent quarrels among the family members. Secondly, the members who earn have as a consequence to bear an excessive burden of maintaining so many idle relations. They cannot save a substantial portion of their

incomes. So the system prevents large accumulation of capital. It is, therefore, indirectly responsible for the small growth of capital in our country. Large scale production on modern lines is impossible without large accumulation of capital. Lastly, according to the system, the family is more powerful than the individual. The latter's initiative and enterprise may not find proper scope owing to the conservative influence of the family.

The joint family system is in the process of breaking down. The growth of individualistic spirit, the spread of education among men and women are gradually undermining the system. Break up of joint family. Whatever the merits and defects of the system, the existence of the joint family does not make our economic life in any way different from that of the west. The fact that when a man marries, he lives separately in one country and along with his parents and brothers in another country does not by itself make the economic motives and activities different in the two countries.

**Religious ideas.** It has been urged that the Hindus who form the majority of the population follow a religion which asks them to neglect the material side of life and to pursue the paths of the infinite. Many of the Hindus are fatalistic to the extreme. Their ideal is not to want more wants, but to conquer all wants and fling away the worldly things. Such an attitude stands in the way of a progressive economic life. The westerner's attitude to life is fundamentally different. He is not indifferent to the worldly goods. On the other hand he tries hard to increase his material possessions as much as possible. That is why he has made so much economic progress.

and the Indian is lagging behind. Hence the economic motives and activities in India are different from those in the west.

This is not correct. The Christian religion also preaches asceticism and condemns the pursuit of riches. Who does not know the famous words of Jesus in which he said that it was easier for a camel to go through the eye of a needle than for a rich man to enter the kingdom of God? In spite of this condemnation, the honest Christian has not neglected to forego his chance of entering the kingdom of God. In spite of his religion, a Hindu has never forsaken any honest way of making money. Even in ancient days when religion was supposed to be better observed, the Hindus developed industries, traded with the world and amassed riches like anybody in the west. The sway of religion has further decreased in modern times. The fatalistic attitude to life is due to the abnormal poverty which prevails in India. Economic backwardness is due to other causes, and not to the religious ideas. Religion has never stood, and will never stand in the way of economic progress in India.

## CHAPTER 5

### NATIONAL INCOME OF INDIA

One of the most significant concepts in economic theory is that of the national income of a country. The concept is valuable from many points of view. Just as one can make a guess as to the standard of living, habits and tastes of an individual or a person if he knows his money income, so it is possible to form some idea of the economic conditions of the people of a country if one knows its total and per capita national income. Every year the people of the country produce a certain amount of goods and services. The sumtotal of these goods and services, after making certain allowances for the depreciation of capital assets, constitutes the national income of the country. The national income is not only the sumtotal of all production. It is also the source from which everyone of us derives his income. If the total production is large, everyone of us could expect to receive a large income. But if the total production is small, the average income will also be low. Much also depends on the way in which the national income is distributed among the population. The more equally the national income is distributed among the people, the better will be the standard of living of the average person in the country. The calculation of the national income of a country is, therefore, of very great importance. It enables us to form an idea of the material conditions of the people of the country. And by comparing our national income with those of other countries, we shall be able to make an estimate of our relative position with respect to other countries.

By dividing the total national income by the number of people in our country, we can determine the income per head, or the per capita income in our country. Attempts have been made from time to time to determine the national income and the per capita income of India. The first estimate was made in 1870 by Dadabhai Naoroji. According to his calculations, the average annual income of an Indian was Rs 20. In 1901, Lord Curzon estimated it to be Rs 30. Twelve years later, Profs Wadia and Joshi calculated it to be Rs 44. In 1922, Mr Findlay Shirras estimated it to be Rs 116. Another estimate has been made by Dr V K R V Rao. According to him, the per capita income was Rs 65 in 1931-32.

Year	Estimated made by	Per capita income in one year
1870	Dadabhai Naoroji	Rs 20
1901	Lord Curzon	" 30
1913-14	Profs Wadia and Joshi	" 44
1922	Mr Shirras	" 116
1931-32	Dr V K R V Rao	" 65

A few words must be said about these estimates. These are all provisional calculations. We do not possess enough statistics to determine all the items of national income. Often the available statistics are not accurate. So these estimates should not be taken to be absolutely correct. But from these we can get a rough idea about the extent of our income. Moreover, the rise of the income from Rs 20 to Rs 65 does not necessarily indicate that we are more prosperous than before. The value of money has fallen by a large percentage during this period. So higher money incomes do not mean that the people are better off than before.

After the achievement of independence, the government of India set up a National Income Committee for

the purpose of framing an accurate estimate of the national income of this country. The Committee first published estimates of national income for the year 1948-49, and since then data for subsequent years are being gradually published. The following table gives the estimates of national income of India as published by that Committee.

TABLE I

*National Income at Current Prices and Per Capita Income*

Year	Total Income in millions	Per Capita
	Rs	Rs
1950-51	95 800	265 2
1951-52	99 900	274 5
1952-53	98 600	258 1
1953-54	106 000	283 9

The total national income is determined by adding together the value of the net output from agricultural operations, forests and fisheries, the net output from mining and manufacturing industries and the value of the services provided by commerce, transport, communications and other services. The per capita income is found out by dividing the total national income by the total or estimated total population.

It is clear from these figures that the national income has increased in the four years since 1950-51 by about 8.2 per cent. According to rough estimates, it is expected that the total national income of India will rise in the five years of the First Plan by about 18 p.c., and in the next five years it is expected to increase by more than 25 p.c. and the per capita income will increase by 18 p.c. The smaller rise in the per capita income is due to the fact that the population of this country is increasing at the rate of about 1.4 p.c. every year. By 1960-61, the end of the Second Five Year

Plan, the per capita income will go upto Rs 330 per year, i.e., about Rs 27.5 per month per head. As the average size of a family in India is 5.6, the total income to be received on average by the different families will be about Rs 154 per month.

In order to determine the extent of our poverty relative to other countries it will be necessary to examine the per capita incomes in other countries along with our own data. This is given in the following table.

TABLE II

*Estimates of per capita income in different countries in 1949*

Countries	Rupees
India	247
Pakistan	243
Burma	171
Indonesia	119
China	129
Ceylon	819
Japan	476
U S S R	1,467
Australia	3,233
U K	3,681
U S A	6,919

Thus while there are poorer countries than ourselves, we are far behind the more advanced, industrialised countries in respect of our per capita incomes. Thus our per capita income is one fifteenth of that of a Britisher, one twenty eighth of that of an American and is about one sixth of that of a Russian.

While figures of per capita incomes provide some idea about our relative position with respect to other peoples, one should remember that per capita incomes

mean the average income per head. This would be the actual income of every person if the distribution of the national income were equal. But in actual fact the national income is unequally distributed. Unfortunately we do not possess the data relating to the distribution of our national income. Long ago Profs. Shah and Khambata calculated that less than five per cent of the population was enjoyed about one third of the national income, and the vast majority, *i.e.*, about 60 p.c. of the population received barely 30 p.c. of the national income. Even if we think that the distribution of the national income has become less unequal these days on account of the heavy taxation of the higher incomes, it still remains true that the vast majority of the people of this country receive extremely low incomes, much below the per capita income.

Now that we know the extent of our poverty, the remaining chapters of this book will be devoted to the discussion of the question—why are we so poor? We propose to examine the structure of our productive organisation one by one, and try to find out the main causes of the low output in each sector. For, low output means low income. We shall first start from the study of agricultural operations, as agriculture and the allied pursuits provide more than 50 p.c. of our national income, while mining and manufacturing industries yield only 17 p.c. of the national income. Commerce, transport and communications also yield 17 p.c. of the total national income. These will all be examined one after another. All our discussions will also be concerned with remedial measures. We must know why we are so poor. We must at the same time try to find out how we can grow richer.



## CHAPTER 6

### ORGANISATION OF PRODUCTION IN AGRICULTURE

We shall now examine the organisation of production in our country and examine the efficiency of the different parts. In this and the next three chapters, we shall make a systematic study of the structure of production in agriculture, industries and transport.

**Organisation of Agriculture** Agriculture occupies the most important place in our productive organisation. It provides occupation for nearly 70 per cent of the total population. It supplies nearly all the food grains and the raw materials which are consumed within the country, and which are exported. Nearly 50 per cent of the national income of India is derived from agriculture and allied pursuits. Our cultivator may be a poor man. But he does not occupy an unimportant place in the economic life of our country.

How is this important industry organised? It is organised on a very small scale. The cultivator tills his tiny plots of land with the help of an ancient plough and a pair of bullocks. His health is not always good and so is his knowledge. His plough,—a small wooden instrument with a bit of iron to sharpen the end—still retains the form given to it by his forefathers in long forgotten days. His bullocks are like him, weak and undernourished. As a result, the surface of the land is barely scratched. He is not, and cannot afford to be, particular about the quality of the seeds. For watering his lands, he depends mainly on the monsoons. In some places which are

Organisation is  
inefficient

fortunate in possessing wells, tanks or canals, he draws water from these and pours it to his land. There are no fences round the fields to protect his crops from the stray cattle. He does not apply manures to his lands. A portion of these may, however, be left fallow to recover its natural fertility. There is no rotation of crops. As the harvesting season comes, he cuts the crops with the scythe, probably with the help of some labourers. But after months of such hard labour, he does not raise much crops from his land as compared to farmers in other countries. Output per acre is probably the lowest in India\*. We shall now discuss the main causes of such low productivity.

### Small scale farming

In India agriculture is organised on a small scale. While the average size of holdings is 62 acres in England and 148 acres in the U.S.A., it is only 4 or 5 acres in India. In terms of the average area sown, the small cultivator has about 3 acres of land, the medium cultivator has slightly more than 6 acres and the large cultivator has about 15 acres of land. It has been estimated that the average holding of land per family in Bengal is about 4 acres, in Madras about 5 acres, and in the Madhya Pradesh about 8 acres. In the Uttar Pradesh only 2.5 acres. In the Dinajpur District of Bengal, each cultivator has got about 1.5 acres of land. Not only is the average size of the holding comparatively smaller in India than in the Western countries, but each holding is seldom situated in one compact bloc. It is further subdivided into smaller plots and each plot is scattered over different parts of the village. In the Ratnagiri district of Bombay, the size of the individual

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\* See p. 72

plots is sometimes as small as about 30 square yards. One writer found in Konkan that a single acre of rice land had been further sub divided into 9 separately owned plots. Many of you must have seen, while going in a railway train, the odd shapes of the plots of land, sometimes only several yards in length and breadth. Each plot is separated from the others by boundary lines.

**Causes** The small size and the scatteredness of the plots are the two most serious defects in our agricultural

organisation. The gradually smaller size of the holdings is due primarily to two causes. The population of India has increased materially since the last 30 or

40 years. The percentage of the total population which depends on land as the means of their livelihood has increased during this period. Hence the total number of men who live by agriculture has increased materially in our country. But the area under cultivation has not increased proportionately. As a result, each cultivator will have smaller plots than before.

**Laws of inheritance** Moreover, with the gradual break up of the joint family system, cultivation is

no longer carried on jointly. Each heir insists on dividing his paternal properties. Under the systems of inheritance prevalent in India, a man has usually many heirs. Under the Hindu Law, all sons have equal shares in the ancestral property, while according to the Mahomedan law, all the sons and daughters, parents and others get shares on the death of the father or son. So the holdings are being continuously subdivided. The scatteredness of the plots is due to the fact that each heir wants a share in all plots, the original plots being situated in different parts of the village.

**Defects** Small scale cultivation is usually less productive than large scale farming. Productivity in such small holdings as exists in India will, therefore, be smaller than elsewhere. These evils have been further aggravated by the scatteredness of the plots. Secondly, much land is lost in boundary lines and paths round the tiny plots. If these plots were in one compact bloc, the area lost in boundary lines could have been cultivated and this would have increased the total produce from land. Thirdly, had the plots been situated in one place, the cultivator could have dug a well to supply water to his holding. But one plot may be situated in the northern part, and another in the southern part of the village. It is no use digging a well to supply water to plots of land so far distant from one another. Fourthly, not only the construction of wells, but all kinds of agricultural improvements cannot be adopted by a cultivator of small plots, scattered far and wide. Lastly, there is a huge waste of time and energy as the cultivator has to walk from one plot to another in a different part of the village with his bullock and plough.

**Remedies** Much depends on the proper solution of these evils. Two methods have been adopted in the different states. In the Punjab and

Co operative consolidation of holdings as in the Punjab

some other states, *co-operative consolidation of holdings* has been tried.

The idea behind this method is this

Suppose a cultivator has one plot of land in one part of the village and a second plot in a different part of the village. Another cultivator has a plot near the first plot of the first cultivator, and another in a distant part. If the second cultivator can be induced to give his first plot to the first cultivator in exchange for the latter's second plot, the first man will

then get two plots in one compact bloc. In this way, efforts are made, by the exchange of plots, to give each cultivator a compact holding in the place of his scattered plots. In some states like the Madhya Pradesh, the

Punjab, and the Uttar Pradesh, the government have passed *Consolidation of Holdings Act*. Under these Acts, the authorities at first try to persuade the cultivators to consolidate their

Consolidation of  
Holdings Act of  
Madhya Pra-  
desh

small holdings into compact blocs. If a large majority of the villagers (more than half the permanent right holders) agree to accept the scheme, the others may then be forced by law to consolidate their holdings. Something has been done under these Acts. But this is not enough. At the rate at which consolidation is proceeding in these provinces, it will take several centuries to consolidate all holdings in India. Are we to wait for a few centuries more for such essential reforms, while the vast majority remain in abject poverty? Unless the size of the holdings is larger it is idle to expect a lasting improvement in our agriculture.

On this point the conditions in our country are similar to those which prevailed in Russia before the present revolution. Soviet Russia solved the problem in course of a few years by organising "*collective farms*". Output has increased materially, and the incomes of the peasants have become higher on these collective farms where land is cultivated with machines lent by the state.

But the introduction of this system is likely to give rise to great difficulties in our country with its large number of illiterate cultivators. The government will have to apply a good deal of force to introduce this

system, and this will cause immense suffering to the agricultural population as it did in Russia

The best way to solve the problem is to introduce the system of co-operative farming in the villages. The individual cultivators should be encouraged to form themselves into *Co-operative Farming Societies*. All the cultivators should pool their holdings and cultivate the land jointly. The crops, after being harvested, should be divided among them according to the area of land possessed by them. The ultimate aim should be, as the Draft Report on the First Five Year Plan recommended, the establishment of *co operative village management*, wherein all the land of the village is to be regarded as a single farm, and it should be cultivated by all villagers, owners of land and the landless labourers. All persons who work on the land will receive wages and the owners of land will receive an additional sum, depending on the area of land possessed by them.

### Irrigation

It is well known that water is one of the fundamental necessities of cultivators. Without water, land grows very little, whereas the output of crops can be easily increased if sufficient water is supplied to land. In India, water is highly important on account of the dryness of soils. India possesses many kinds of soils suitable for the growth of different crops. But the most predominant characteristic of these soils is that these are dry and will not grow abundant crops without sufficient water supply. Secondly, there are certain crops like sugar cane or rice which require a large supply of water. Lastly, the monsoons do not favour all parts of

Importance of  
irrigation

the country equally. There are areas like Rajasthan where the amount of rainfall is very small. In other places, the rains are irregular and uncertain. Hence it is necessary to construct irrigation works to reduce our dependence on the monsoons and to supply water in sufficient quantities to the thirsty lands.

**Forms of irrigation works** Something has been done in this respect both by the people and the government.

**Wells** In many areas *wells* have been dug by the cultivators. The chief well irrigated states are the Punjab, the Uttar Pradesh, Madras and Bombay. The government has also encouraged the digging of wells by granting *takhsan* loans to meet the cost of construction. The total area irrigated by wells is 14.7 m. acres, i.e. about 29 per cent of the total irrigated area. The cultivators raise water from these wells in bags of leather with the help of the bullocks. This water is then brought to the land in small drains. In the Uttar Pradesh, the government has constructed *tube wells* which are operated by electricity and supply water to the adjoining lands. About 1,500 tube wells have been sunk with great benefit to the cultivators. The Ganges Valley Tubewell Irrigation Scheme thus marks a new development in irrigation practice in our country.

**Tanks** Another method of irrigation is the digging of *tanks* and has been followed in all states except the Punjab. These are most common in Madras which contains more than 30,000 tanks. The water stored in the tanks is supplied to the neighbouring plots. The total area irrigated by this means is 8.2 m. acres, i.e. about 16 per cent of the total irrigated area.

**Canal irrigation** The most important method is the construction of *canals*. From time immemorial, Hindu and Muslim kings have dug many canals to help their subjects. The Government of India have also spent huge sums—more than Rs 128 crores,—for this purpose. Unlike wells or tanks, canals have been constructed mostly by the state. These are of three types. Sometimes a long chain of canals is cut out from a river. The bed of the canal is shallower than that of the river, and so water comes into these canals only when it rises above certain level in the river. Hence these canals are full of water only during certain periods. They are known as *inundation canals*. A second type of canal is known as *perennial canals* as these are constructed in such a way that they get water from the river throughout the year. The third type is known as *storage canals*. A huge dam is constructed across a valley. The rain water which falls down the hills is stored in these places, being prevented by the dams from falling below. Stored water is then distributed by means of canals to distant lands.

The total irrigated area was estimated at about 51 m acres in 1950-51, i.e., about 17 per cent of the total cultivated area. In the Punjab, a large percentage of the sown lands is irrigated by the Sutlej valley canals, Jhelum canal, etc. In the Uttar Pradesh, Bombay and the Madhya Pradesh, 32 per cent, 45 per cent and 7 per cent of the sown lands are irrigated. The Sardar canals in the Uttar Pradesh, the Bhandara dams and the Lloyd dam in Bombay, the Cauvery Mettur projects are



important canal Only 6·4 per cent and 8·7 per cent of the cultivated area in West Bengal and Assam have been irrigated The Damodar canal is an important project in West Bengal

*Total area under irrigation*

(in 1950-51)

Punjab	4 617,000 acres
Uttar Pradesh	1,199,000 "
Madras	4,112 000 "
Bihar	5,595,000 "
Orissa	2,327,000 "
Bombay	1,976,000 "
West Bengal	2 146,000 "
Madhya Pradesh	2,070,000 "
Andhra	4,606 000 "

The states where the rainfall is inadequate can be divided into three groups on the basis of the proportion of irrigated area to cultivated area,—areas of relatively intense irrigation, areas of comparatively low irrigation and those of very poor irrigation The first group comprises those states where the proportion varies between 45 to 25 per cent In this group is to be found the Punjab, Pepsu, U P, Bihar and parts of Madras In the second group, the proportion varies between 13 to 9 per cent Here are to be found Malabar Konkan, western Orissa, eastern Madhya Pradesh and South Deccan Areas of poor irrigation are north Deccan, western Madhya Pradesh, Vindhya Pradesh, Madhya Bharat and Gujarat Kathiwar

The irrigation works yield a decent revenue to the state governments The cultivators who take water to irrigate their lands have to pay a water rate to the government The rates charged vary with the crop grown, and are different in the different states On the basis of the revenue yield, irrigation works have been divided by the

Classification of  
irrigation works

government into two classes,—productive and unproductive. *Productive irrigation works* are expected to yield a net revenue, while *unproductive works* are not expected to be remunerative, but have been excavated as protection against famines etc

In spite of much investment, barely 17 per cent of the total cultivated area is served by irrigation works. This is clearly inadequate, considering the needs of the country. Much, therefore, remains to be done in this direction.

**Advantages** These irrigation canals have conferred great benefits on the people. They have turned barren deserts into smiling fields. Land in the canal colonies of the Punjab was barren before these canals were dug. People were even unwilling to accept such land as a gift. But after the canals have been constructed, these lands became fertile and grew large crops. *Secondly*, irrigation increases the yield from the cultivated land. In Bombay, one acre of unirrigated land yields 510 lbs of rice. But irrigated land yields 1230 lbs per acre. *Thirdly*, these reduce our dependence on the uncertainties of the monsoon. *Lastly*, these have helped to reduce the expenses of famine relief, and yield a decent revenue to the government.

**Defects** The chief defects of these canals are that they have led to water logging. The level of the sub soil water rises and makes the land unfit for cultivation. In the Punjab and Bombay a large portion of the land has been thrown out of cultivation by the rise of sub soil water. Large canals under the courses of the rivers, *and in this way interfere with the system of drainage provided by nature*. Leakage of water from the canals to the surrounding fields makes them damp and swampy.

These places may become breeding grounds for mosquitoes with bad effects on the health of the people

**Recent Irrigation Projects** The First Five Year Plan framed by the Planning Commission includes proposals for an expenditure of Rs 661 crores on the development of irrigation and power. This sum constitutes about 28 per cent of the total expenditure in the first part of the plan. When these projects are carried out, 8 million acres will be irrigated by major irrigation works, representing about 16 per cent of the present irrigated area of the country. In addition, minor irrigation works consisting of restoration of tanks, construction of wells, repairs of nallahs, etc. will irrigate another 7 million acres of land.

Of these irrigation projects, mention must be made of the Damodar Valley Project, the Hirakud Dam Project, the Bhakra Nangal Project, etc. The total cost of the Bhakra Nangal Project is estimated to amount to Rs 132.9 crores, while that of the Damodar Valley Project would amount to Rs 74.78 crores. These are combined projects, which would provide irrigation facilities as well as hydro electricity. The Government has set up a statutory authority in the name of Damodar Valley Corporation (D.V.C.), consisting of the representatives of the Central Government, and the Governments of Bihar and West Bengal. This Corporation has been entrusted with the task of carrying out the Damodar Valley Project. There are three main aims of this Project, *viz.*, to control the flood waters of the river Damodar, to provide irrigation facilities and to generate hydro electricity. There is no doubt that when these Projects are completed, they will prove an important factor in increasing the yield of crops and in raising the standard of living of the people.

**Irrigation in the First and Second Plans** The First Five Year Plan included provisions for a large expenditure on the development of irrigation projects. The total expenditure on irrigation and power during the First Plan was estimated at Rs 558 crores. This has since been raised to Rs 661 crores. The larger irrigation schemes have the capacity, when fully worked, to irrigate about 22 m acres of land, of which 7 m acres are expected to be realised by the end of 1955-56. The minor irrigation works will also irrigate about 10 m acres.

The Second Plan has provided for a total expenditure of Rs 898 crores—Rs 458 crores on “irrigation” and Rs 440 crores for “power”. It is expected that these schemes will add another 21 m acres to the total irrigated area.

As a result of this expenditure, the proportion of the total irrigated area to cultivated area is expected to increase from 17 p.c. in 1950-51 to 23 p.c. in 1955-56 and to 30 p.c. in the end of the second plan.

### Capital

The small size of holdings is not the only defect in our agricultural organisation. Cultivation is carried on in our country according to very old methods. We already know that the use of capital increases the productivity of labour. But very little capital is used in our agriculture. The peasants do not possess any capital except the old plough, a pair of bullocks and a few ancient implements. The tractor and other machines which have increased the yield from land in the western countries are practically unknown to our cultivators. The cultivators cannot always use good seeds or seeds of improved variety, and hence do not get good crops.

They have no money to buy artificial manures. Cowdung which is easily available in the villages is, however, burnt in the form of cakes. Indian soils are comparatively dry, and therefore, water in sufficient quantities must be applied to the land. But for want of capital the cultivators cannot construct wells or tanks to supply water to their lands. No wonder that our lands yield the lowest output in comparison with other countries. There is thus a vicious circle. Owing to the low productivity of agriculture, the incomes of the cultivators are very small, and are scarcely adequate to meet their bare necessities. They are not in a position to save anything and are, therefore, unable to purchase good seeds or manures, or improve implements. This vicious circle must be broken somewhere so that more capital may be invested in the improvement of agriculture. As a result of that, the productivity will increase, and the cultivators will have larger incomes and higher standard of living than at present.

### Rural Indebtedness

One of the most important causes of agricultural backwardness is to be found in the indebtedness of our cultivators. A person groaning under the burden of debts cannot invest any thing in improving his land. The extent of the total debts incurred by the cultivators is enormous. It was estimated by the Central Banking Enquiry Committee in 1931 that the total debts of the cultivators all over India amounted to Rs. 900 crores. The debts of the cultivators in Bengal amounted to Rs. 100 crores. There is no doubt that the sum has considerably increased in subsequent years. The problem is, therefore, serious, and unless this is solved, it is idle to expect any improvement in agriculture.

Importance of  
the problem

**Causes** The chief reason is the extreme poverty of the cultivators. Their poverty is due to

Poverty of the cultivators

their extremely inadequate incomes

Such low incomes are due to the low productivity of agriculture. This is again due to the *uncertainty of rainfall, the subdivision and fragmentation of holdings, application of small capital to the improvement of land and other causes*

Another important reason for such low incomes is the absence of any secondary occupation for the cultivators. The agriculturists have no

Absence of secondary occupations

work during the period after harvest and before the new sowings. Generally they remain idle during these months.

So they have to support themselves on their small incomes from the sale of crops during these idle months. As these incomes are barely sufficient, they are often forced to go to the mahajans.

As a result of their poverty, they cannot save anything. So if, in any year, the land does

Failure or excess of rains

not grow large crops owing to inadequate or excessive rainfall, they are

forced to borrow money to buy the necessaries of life.

Or if their cattle dies, they have to borrow money to purchase another bullock. When

Loss of cattle

the zemindar or his agents comes and demands his revenue the unfortunate tenants are forced

Payment of land revenue

to borrow to meet the demand of the zemindar. The poor have to borrow for many other reasons.

The thriftless habits of the cultivators are also an important cause of their indebtedness. If, in any year,

bountiful nature yields abundant crops, the higher incomes will probably be spent in Thriftlessness of the cultivators marriage festivities, or Sradh ceremonies, or in useless lawsuits over small and often fancied grievances. As a result, very few of them save anything out of their incomes.

Lastly, the Mahajans are not always honest people. Many of them do not hesitate to take advantage of the illiteracy and ignorance of the cultivators. As the latter cannot read written accounts, and do not always insist on getting receipts for the sums they have paid, they are often cheated by the unscrupulous Mahajans. The moneylenders also charge very high rates of interest. As their incomes are very small, the cultivators are unable to repay the principal after paying off such rates of interest. As a consequence, the burden of debts grows heavier every year with no prospect of repayment. At last the Mahajans go to the courts, sue the cultivators for arrears of debts, and sell their lands. In this way the cultivators are sinking lower and lower in poverty.

**Remedies** This problem is two fold,—*first, how to enable the cultivators to pay off their old debts, and secondly, how to ensure that they will not have to borrow in the future.* To tackle the first problem, the government at first passed laws (e.g., the Deccan Agriculturists Relief Act of 1879, the Usurious Loans Act of 1918, etc.) to reduce rates of interest on the loans, and started the co-operative credit societies. The first was ineffective, and the second was inadequate. A large number of co-operative credit societies have, of

course, been started. The aggregate working capital of all the credit societies amounted to Rs 168 crores in 1951-52. But the amount of debts exceeds Rs 900 crores. So these societies do not possess sufficient resources to enable the cultivators to pay off their debts. In recent times the government have adopted a more drastic step. They have passed *Agricultural Debtors Acts* for

Scaling down of debts      the voluntary or compulsory scaling down of the debts. *Debts Settlement Boards*, consisting of a number of

persons, have been set up in different parts of the country. These examine the debts of the agriculturists and try to induce the creditors to reduce their claims to sums which the cultivators can pay. They also fix

Debt settlement boards      instalments, spreading over a number of years, by which the debts are to be repaid. Much has been done by these

Boards to scale down the existing debts of the cultivators. But much also remains to be done.

One result of the burden of existing debts is that the lands of the cultivators are being sold away. To prevent the passing of lands from the hands of the cultivators to the Mahajans, laws (e.g., *Land Alienation Act of 1901*)

Prevention of land alienation      have been passed in the Punjab and some other States under which lands could not be sold to a person who was not an agriculturist.

The second problem has been tackled in several ways. First, the government granted loans to the culti-

Granting of takkavi loans      vators for specific purposes like the purchase of seeds, cattle, etc. These are known as the *takkavi loans*. But

these are granted only during periods of distress or scarcity. These are not popular among the cultivators.



and have not solved their problems in any way. The government has also started the *co-operative credit societies*. These supply loans to the cultivators at cheap rates of interest. They are, of course, doing good service to the peasants. But their number and resources are inadequate, and so they are not in a position to supply all the needs of the cultivators.

We have seen that the Mahajans often cheat the cultivators. To prevent these abuses, the different State Governments have passed *Money-lenders Acts*. According to these acts the Mahajans have to take licences for doing their business. They must also furnish regular accounts to the debtors. They will not be allowed to charge more than a certain rate of interest (varying from 8 to 12 per cent).

The measures have, of course, yielded some result. But they have given relief only to a small number of cultivators. A real and lasting solution will only come when the incomes of the cultivators increase more than at present. This depends on increased agricultural productivity. The latter again depends on the adoption of large scale farming and other improved methods of cultivation. The whole thing is thus interdependent. What is, therefore, necessary is a *combined and co-ordinated plan of agricultural development* embracing all parts of the organisation.

**Rural Debts and Co-operation** The co-operative movement was originally started to solve the problem of agricultural indebtedness. Even at the present

moment, more than 80 per cent of all types of co operative societies are agricultural credit societies. The main function of these societies is to supply credit or loans to the cultivators at low rates of interest to enable them to repay their old debts to the mahajans and to meet their current requirements. Something has been done in this direction. But in spite of the progress that has been achieved the resources possessed by the societies are extremely inadequate. According to the Report of the All India Rural Credit Survey, the Co operative Societies have supplied barely 3 per cent of the total borrowings of the cultivators. Hence the societies have not been able to meet even the ordinary requirements of the members. The share in enabling the members to repay their old debts to the mahajans can, therefore be easily imagined. In order to enable the members to do this, loans must be granted to them for long periods so that they may pay off by easy instalments. But the societies are not in a position to lend money for long periods. Hence the part played by the co operative movement in the solution of the problem of rural indebtedness has been insignificant.

### Marketing

	The cultivator raises only a small amount of crops from his land. This is certainly bad.
Defects	But the worse thing is that he does not always get the proper price by selling the crops. *This is due to the defective marketing organisation. The cultivator who grows a small amount of crops cannot afford to send these to the distant markets as that means a great loss of time. Often there is a complete absence of good roads connecting his village
Absence of good roads	

with the distant markets. So he has to sell the crops in his village market, or to the *beparies*, or *fantas*, or other middlemen who come to the villages to buy the produce from the growers. The cultivators are illiterate, and do not know the prices prevailing in the more important markets. The middlemen often pay them less than the market price. The cultivators may have taken *dadans* or advances from the middle men at the time of the sowing of seeds. In such cases there may be an understanding that the crops will be sold to the latter. These *mabajans* take advantage of their position, and do not always pay the proper price to the sellers. Moreover, prices of the crops generally reach a very low level after the harvest, and rise after a few months. The cultivators are extremely poor, and so are often forced to sell the crops immediately after the harvest.

**Cheating by middlemen** Had they been able to hold their crops till a few months passed, they could have sold at a better price. As it is, the middle men purchase crops at the low price after the harvest, hold them till prices rise, and sell them in the big markets. In this way they get all the profits. It has been estimated that the actual cultivator gets only four annas out of every rupee paid by the ultimate consumer of wheat products. The remaining twelve annas are pocketed by the middle men.

**False weights**

**Sales of crops immediately after harvests**

Thus we see that the income of the cultivators can be easily doubted if the present defects in the marketing organisation are remedied. The government should pass a law prescribing a uniform, standard weight for the whole country. And rigorous steps should be taken to

inspect, from time to time, the weights which are used by the dealers. Good roads and Standardisation of weights railways should be constructed, linking the villages with the principal markets. The cultivators should be organised into co operative sale societies. These should market the combined crops and then divide the Good roads sale proceeds among the members according to their share of the crops. The government should give financial help to these societies to enable them to build godowns in the villages. Co-operative sale societies The cultivators will deposit their crops in these godowns and obtain receipts in exchange. The co operative credit societies and other institutions should grant loans to the cultivators against these receipts up to a certain percentage of the value of the crops deposited. Building of godowns In this way the ryots will be able to satisfy their immediate monetary needs. When the prices will rise, the society will sell the crops, and hand over the proceeds to the cultivators, after deducting the amount of the loan. The cultivator will not be forced to sell immediately after the harvest, and will enjoy the benefits of higher prices.

Recently the government has passed an act providing for the building of warehouses in different parts of the country. The money for those warehouses is to be found partly from the state governments and also from the Reserve Bank of India.

**The man behind the plough** Lastly, we come to the cultivator. Many hard things have been said about this Defects unfortunate man. He is, of course, inefficient. But his inefficiency is due more to his ill health and illiteracy than to any

inherent defect in his character Because of his extreme poverty, he is often ill fed, ill clad and ill housed So he falls an easy victim to various diseases like malaria cholera, etc This lowers his vitality He is also illiterate, and so is not in a position to know the scientific methods of cultivation Extreme poverty for generations has often killed his ambition and has induced in him a fatalistic attitude of mind He is resigned to his lot, accepting it as the decree of the fate So he often fails to show a desire to improve his position All this is no doubt true But he is diligent and industrious His methods may appear primitive but they embody the wisdom of the ages *His defects are due more to his environment than to himself* Steps should be taken to spread both general and agricultural education among the masses The government should introduce compulsory primary education in the country, and educate the peasants in modern methods of cultivation by organising demonstration farms This will go a great way to improve the human factor in our agricultural organisation

**Summary of the defects** We can now summarise the chief defects in our agricultural organisation First, the holdings are very small in size, and are moreover, scattered in different parts of the village This makes large scale production and the introduction of machines impossible Secondly the soils are dry rainfall is uncertain and often inadequate, irrigation works are insufficient So

(a) Small hold  
ings

(a) Inadequate  
water supply

crops cannot be grown in abundance due to the absence of sufficient water supply

(c) Lack of capital, good seeds, manures, etc. Thirdly, the lack of capital lies at the root of most difficulties. Owing to their poverty, the cultivators do not possess enough money to buy good seeds, better implements and machines, to apply manure to their lands, or to meet the expenses of digging wells and tanks. He is steeped in debts. Fourthly, owing to the defective marketing organisation, the cultivator does not always get the proper price for his produce. He seldom follows any other secondary occupation. Otherwise, he could have increased his income by working during the idle months. He is weak and illiterate and unambitious. Hence our agricultural organisation is inefficient and we produce the lowest output per acre. The millions who toil on their scanty lands scarcely obtain anything to keep their body and soul together.

**Remedies** The remedies for these defects have already been indicated in the proper places. The problem of sub-division should be solved by the consolidation of holdings by law or by the co-operative method. More irrigation works should be constructed to water the lands. Co-operative credit societies should be organised on a large scale to supply loans at cheap rates to the cultivators. To help them in selling their crops, co-operative sale societies should be organised in the villages. Or, a single co-operative society should be organised, which would grant loans, market the crops, build godowns, purchase good seeds, manures and im-

plements on behalf of the members, etc. Such a multi-purpose society should also do other rural reconstruction works, like the starting of schools, the preaching of sanitary habits, etc. Above all, there is an urgent need of educating the peasants. For, no improvement is possible without a wide diffusion of education among the masses.

**The state and agriculture** The state can do much to secure the necessary improvements in the agricultural organisation. It has, of course, done something. It has, for example, excavated many irrigation works, has dug large canals, and encouraged the construction of wells and tanks. It has tried to consolidate the scattered holdings on the co-operative method in the Punjab and other States. *Consolidation of Holdings Acts* have been passed in the Madhya Pradesh and other States. *Separate Departments of Agriculture* have been started in all States. These have opened *Demonstration farms* where the cultivators can watch improved methods of cultivation. These *Stud bulls* also help in the distribution of good seeds. Attempts have been made to improve the breed of the cattle. Under the inspiration of Lord Lantthgow, better stud bulls were presented by many individuals for improving the breed of the cattle. The government is also trying to spread primary education among the masses. But the results have been meagre. Several agricultural schools and colleges have been started in the different States. To co-ordinate research work in agricultural operations, the Government of

India has started the *Indian Council of Agricultural Research*. This Council is carrying on important research work in various directions. The government has also passed the *Agriculturists Loans Act*, and the *Land Improvement Loans Act*. It is advancing *takkavi* loans to the cultivators to help them in times of distress and scarcity. It has started the co-operative movement to help the cultivators in various ways. The credit societies grant loans and help them in marketing their produce. Lastly, the government is now paying increasing attention to the improvement of the marketing organisation. As a preliminary step marketing officers have been appointed whose duty is to conduct a searching enquiry into the marketing conditions of the different crops.

Thus unlike the industries, agriculture has received some consideration at the hands of the government. But the effects have not been considerable. It will take several centuries, at the present rate of progress, to improve all the acres of land which are cultivated. More active and often more drastic steps should be taken, if the condition of the masses is to be improved.



## CHAPTER 7

### THE CO OPERATIVE ORGANISATION

**Co operation** Reference has already been made to the co operative societies which have been started by the government to supply loans to the cultivators. What are co operative societies? These are societies which have been organised on the principles of co operation. *The fundamental principle of co operation is that strength lies in unity.* The poor and the weak members of the society may not be able to do anything by their separate efforts. But they can do much in combination with each other. United they can eliminate the capitalist owner, or the grasping middle men, or otherwise secure all the advantages of wealth. A co-operative society is thus a voluntary association of a number of individuals, each of whom may be insignificant, but who try, by their united efforts, to secure some material advantages and their moral development.

**Principles of Co operation.** What are the fundamental principles of co operation? As we have already stated, the first principle is that *union is strength*. By forming a co operative society, the poor and the weak members of the community are able to secure all the advantages which are enjoyed by the rich. Secondly, *Free association* the co operative societies are based on the principles of *free association* and *equality*. Individuals are free to become members of the society. All members enjoy the same status in the organisation. *Equality* Another principle is that of *solidarity*. Each in-

dividual, when he becomes a member, must stand by the society and all its members

**Solidarity** under all circumstances Each must fight for all, and all must help each other Then there is the principle of *proximity* The members of a society must have intimate knowledge of each other, and should therefore, live in a common locality Herein lies the distinction between a co operative society and joint stock company The latter can be formed by completely unknown persons living far and wide A co operative society must also be *economical* in its working It should not be extravagant and should induce its members to practise thrift As far as possible, the members should render voluntary services A co operative society is not like an ordinary association It pursues a higher ideal It seeks to influence the life of the members by fostering in them the spirit of self help and mutual help It aims at the improvement of the human factor in the organisation Its aims, therefore, go beyond lending money or selling some goods *Improvement in the material conditions* of the members is sought as a means to secure their mental and moral development

**Mental and moral development**

**History** Co operative credit societies to help the poor cultivators were first started by Herr Raiffeisen in Germany These have proved a notable success not only in that country, but also in Denmark, Holland, Ireland and other western countries Towards the end of the 19th century, some co operative societies were started in India to relieve the acute distress of the culti

First started at the end of 19th century

vatois The Madras government asked one of their officials, Mr Frederick Nicholson, to submit a report on the subject That gentleman summed up his conclusions in two words, "Find Raiffeisen" He suggested the establishment of co-operative societies to solve the problem of rural indebtedness In 1904,

Co-operative So-  
cieties Act of  
1904

the government passed the *Co-operative Societies Act* to regulate the development of the movement At first

provisions were made only for the starting of co-operative credit societies to supply loans to the members Any ten persons of a village can form such a society Its main purpose is to collect deposits from members and others and to grant loans only to the members on easy terms The liability of each member is unlimited\* A large number of co-operative credit societies were started all over the country, and in course of time need was felt for expansion of the movement in other direc-

Co-operative So-  
cieties Act of  
1912

tions So another act was passed in 1912 It now became possible to organise societies in other directions, such as co-operative sale and purchase societies

etc Central and Provincial Co-operative Banks were organised to supply funds to the village societies The structure of the movement is governed in essentials by this act, though in recent times, some changes have been introduced by various State acts to suit the special requirements of the different States

**Features of the movement** At present the movement has been developed in the following directions The large majority of the societies have been organised to help the agriculturists These are both of credit and non credit type But the credit societies are predomi-

\* See Page 76

nant as these form about 80 per cent of all agricultural societies. The main reason for this is that co operation is meant mainly for the poor, and the vast majority of the poor in India belong to the agricultural classes. Moreover, the supply of cheap credit was felt to be the chief need of the poor cultivators, and so the movement has remained even to this day a predominantly credit movement. In subsequent years, need was felt for developing non credit types of societies, such as the co operative purchase societies, sale societies, irrigation societies, cattle insurance societies etc. But the progress in this direction was extremely slow. There are also co operative societies of various types to meet the needs of the non agricultural classes, such as co operative credit, sale and purchase societies for the artisans, co operative stores, etc. Many central and State co operative banks have also been established to finance the primary societies. Lastly, one important feature of the Indian movement is that it has not sprung up from the people as in Germany. It has not been based, as it should be, on the voluntary effort of a people determined to improve their conditions. It has been initiated by the government, and is based all along on the active support of the state.

**Rural credit societies** The basis or the cells of the movement are the primary co operative societies. These are of two types,—credit and non credit. Primary agricultural credit societies form nearly 80 per cent of all agricultural societies. It is, therefore, necessary to make a detailed study of the constitution and function of these societies.

These societies can be formed by ten or more persons. They must be major, and must live in a com

mon locality near each other so that they know each other intimately. The liability of each society is unlimited.

Organisation of primary societies If the society is unable to pay its debts, the creditor can attach all properties of every member in settlement of their claims. At the time of admission, each

member pays a small admission fee, and has generally to buy some shares. All the members sitting together form the General Committee, and elect some of them to serve on the Managing Committee of the society. The managing committee performs all the business of the society with the help of a secretary. All these members,

including the secretary, receive no remuneration for their services. The management of the society is, therefore,

democratic. The main function of these societies is to grant loans to the members. The capital of a society consists of the admission fees, the sums paid by the members in respect of the shares bought by them, deposits received from members and others. The societies also receive loans from the central co-operative banks. All this money is lent by the society to its members only. Loans are granted for productive purposes like the purchase of good seeds, implements, etc., and also for unproductive purposes like the marriage of daughters, etc. These are also granted to meet the current needs and for the repayment of old debts. At least two other members must stand as security for the repayment of debts. The loans are to be repaid in easy instalments. If, at the end of the year, any profit is made, at least one fourth of the profits must be carried to a Reserve Fund. After this has been done, the members can spend ten per cent of the profits for charitable and other purposes. Dividends up to a certain

percentage can be paid to the members according to their paid up capital. The accounts of the society must be audited each year, often by the staff of the Registrar of Co-operative Societies, a high government official who directs the whole movement. These societies enjoy some privileges. They do not pay income tax or stamp duties, etc. Besides the granting of loans, the societies also aim at the mental and moral development of the members. Some of them maintain schools, dispensaries, etc.

**The question of unlimited liability** The principle of unlimited liability has been regarded as an essential part of the co-operative movement. The principle means that whatever the value of shares held by a member of a co-operative society, his liability for paying the debts of the society is unlimited. If the society fails to meet its debts, the creditors can attach the properties of the members in settlement of their debts. It is claimed that this principle creates a sense of collective responsibility among the members of a society. All members know that if a bad debt is granted to a member who will squander the funds and will not repay the loan, and if the society comes to grief as a result, they may be called upon to meet the loss incurred by the society. Hence each member is expected to exercise vigilance over the way in which loans are granted and to watch the activities of other members. Thus this principle is expected to foster mutual watchfulness, mutual trust and mutual supervision. Moreover, if the liability of the members is unlimited, the rich people may be willing to deposit their funds with the society. Their money will be safe; for in case the society fails to pay it back, they can attach the properties of the members. In recent times, how

ever, some authorities have questioned the utility of this principle, and have suggested that in future societies should be organised on the basis of limited liability

**Co operation and the cultivators** Besides the granting of loans, the co-operative movement helps the agriculturists in many other ways. The cultivators have formed *co-operative irrigation societies*, and with mutual help dig wells and tanks for irrigating their lands. In some States, *cattle insurance societies* have been formed. The members pay a very small premium. When their cattle dies, the society grants them funds to purchase another bullock. We have already mentioned the co-operative purchase and sale societies. The *co-operative purchase societies* buy good seeds, manures and other requirements of the cultivator members at wholesale rates, and distribute these among the members who are allowed to pay for the goods in instalments. The *co-operative sale societies* (e.g., the cotton sale societies of Bombay, the paddy sale societies of Bengal, the sugar cane sale societies of the Uttar Pradesh and Bihar, etc.) collect the crops produced by the members and sell them in the market at better prices. In this way, these try to eliminate the middle men so that the ryots can enjoy all the profits. Lastly, mention must be made of the *co-operative consolidation of holdings*. These have been started with great success in the Punjab. The members seek to consolidate their scattered holdings by forming these societies. Besides, *co-operative anti-malarial societies* (in Bengal), *better living societies* (esp. in the Punjab), *rural reconstruction societies*, etc. have been established.

**Co operation and Cottage Industries** The co operative movement may also be of great help to the artisans engaged in the cottage industries.

How can co operation help the artisans ? They suffer from the same difficulties as the cultivators. They are extremely poor, and are heavily indebted to the

mahajans. There is no organisation to enable them to purchase their raw materials or to sell their finished products. In India, something has been done to help the artisans. In the U P, for example, weavers' co-operative societies were started at Agra and Barbanki. A co-operative yarn store is working at Sandila in Hardoi District. In Bihar, two weavers' stores have been started at Bhagalpur and Ranchi, and other societies have also been established for supplying credit. In the Madhya Pradesh, the Basin Weavers' Co-operative Society in Berr has achieved good success. In Madras, a large number of Weavers' Co-operative Societies were started ; and these have been organised into the Madras Handloom Weavers' Provincial Co-operative Society. But unfortunately, like other co-operative societies, these types of societies have not proved successful.

**Co operation and the urban people** The co-operative movement has also spread among the urban areas. Co-operative credit societies have also been established among the poor and the middle class people living in the towns. The employees of many large firms and of government departments have also organised credit societies among themselves. These societies are well developed in Bombay and Madras where almost all important towns possess such credit societies. A few credit societies have also been organised among the factory workers in Bombay and Calcutta. Another important direction in which the movement is helping the towns-



people is in the organisation of *housing societies*. People belonging to the middle class do not possess enough resources to possess a house of their own, and go on paying high rents throughout their lives in the towns. A co operative housing society assists members to build independent houses of their own by granting loans, and by rendering other help. Such societies are mostly developed in Bombay where the government has helped these societies with the grant of money. They have been of some help in solving the housing problem in the towns. In some States, co operative insurance societies have also been organised for the benefit of the members. Lastly, people living in the urban areas have also benefitted from the consumer's co operative stores which have been organised to sell goods required by the members at reasonable prices.

**Co operation and consumers** The co operative movement is not merely an organisation for supplying credit to the members. It has also been organised, especially in England, for the sale of goods at reasonable prices among the members. These societies are known as co operative stores. They are usually organised in the following way. A few people join together and raise some capital by purchasing shares. The liability of the members is limited. This society purchases the goods required by the members at wholesale prices, and sells them to the members at current market prices. The profits, after deducting the expenses, are distributed among the members usually in accordance with the amount of their purchases from the stores. In India, several co operative stores have been started in different States. Stores attached to college hostels and railways have also been established. Mention must be made of the Triplicane Stores of Madras, which has achieved

some success in this direction. But on the whole the success of the movement in this direction is doubtful. The chief reasons for this state of affairs are the want of loyalty on the part of the members who do not always take care to purchase only from the stores. In order to make it a success the managers must understand business. But unfortunately many of these stores have been managed by people who are lacking in business instinct. Hence these stores have been badly managed.

**Financing of Societies** Wherefrom do these societies get their money? We know that cultivators are extremely poor. How does a society consisting of poor members find enough money to lend? The members of course buy small shares. Those members who are fortunate in possessing some surplus money deposit it with the society. But this is not an important source as the number of rich members is small. So the funds obtained in this way are not expected to be large considering the acute poverty of the majority of the members. The society also accepts deposits from non members. But these amounted to only Rs 1.60 crores in 1953-54 a very small sum compared to the needs of the members. The major portion of the funds of a society is borrowed from the central co-operative banks. These have been formed by the union of the primary societies and their shares have also been purchased by private individuals. These are located at the district or taluka headquarters. Their main function is to lend funds to the primary societies.

These banks in their turn borrow from the *State Co-operative Banks*. They are situated at the capital

of the State Almost all States possess a State Co-operative Bank. These banks accept Provincial Co-operative Banks deposits like the ordinary banks, and borrow money from the Reserve Bank of the India or the State Bank, and lend their funds to the central co-operative banks.

**Achievements of the movement** The progress of the movement has been remarkable. In 1914, there were only 16,000 societies. The number has increased to 198,600 in 1954. It has also conferred remarkable benefits on the people, especially the agricultural classes. The credit societies have supplied funds at low rates to the ryots. Their competition has forced the mahajans to lower the rates of interest charged by them. The hold of the money lenders has been loosened in many villages. They have fostered habits of thrift among the members. Money which would otherwise have been hoarded are now deposited with the societies. These societies are giving to their members training in the handling of money and in the elementary principles of banking. Training in banking. They have served to spread banking habits in the rural areas. The sale, purchase and other societies are rendering large benefits to the cultivators. In those places where there are good societies, a marked change is noticeable in the outlook of the people. The moral benefits are no less important. "Lithigation and extravagance, drunkenness and gambling are all at a discount in a good co-operative society, and in their place will be found industry, self-reliance, and straight dealing, education and arbitration societies,

thrift, self help and mutual help " These societies provide valuable training in business methods They are regarded as a "net work of elementary schools in rural finance " The members of the Managing Committee of a good society get training in the keeping of accounts, and in the handling of monetary affairs In many places, they have kindled a desire for education among the illiterate members Lastly, some societies are making contributions for charitable and public purposes, for example, maintaining charitable dispensaries etc

**Defects** All this is, no doubt, encouraging But in recent times the movement is exhibiting serious weaknesses The movement has failed to foster the true co operative spirit in the members The credit societies have often neglected their co operative ideals and have worked as mere money lending institutions A co operative society is not a glorified money lender It aims fundamentally at influencing the life of the members towards an all round development The co operative societies have often failed to follow this ideal The main reason for this is that little attempts have been made to teach the principles of co operation to the illiterate villagers Hence the members regard the societies as a mere government agency to grant loans at cheap rates

There are other defects Not even five per cent of the agricultural primary societies can be regarded as financially sound In some States like Bombay and Assam, more than 40 per cent of these societies have been classified as bad institutions The main reason for this is that most of the societies are very lax in insisting on

The societies do not follow the co-operative ideal

Financial weakness

regular repayment of loans The members show an excessive tenderness in dealing with defaulting borrowers This is certainly bad Loans must be paid off in regular instalments, except in special circumstances like the failure of crops etc How can a society work successfully where the members do not care to pay off their dues ? On many occasions *fictitious repayments* have been recorded If the borrower is a favourite of the Secretary, the latter makes an entry in the books that the loan is repaid on the due date But immediately afterwards a new loan is granted to that member so that he need not pay any cash In this way the loan remains outstanding This is against the true co operative spirit Often loans have been granted to the favourites of the members of the Managing Committee in excess of their repaying capacity As a result, *a large portion of the loans has become overdue, and the societies are facing financial ruin* The trade depression and the fall in prices of the agricultural crops are also responsible for this state of affairs Owing to the abnormal fall in agricultural prices, the incomes of the cultivators became smaller than before So many of them were not in a position to repay their loans

Unpunctuality in repayment of loans

Favouritism in granting loans

Overdue loans

Trade depression

The various governments are taking steps for the reconstruction of the movement on sound lines Too much should not be made of the defects of the co operative movement All young democratic organisations suffer from such defects They can be rooted out with care and vigilance

On the whole, in spite of many things done, the organisation which provides occupation for the vast majority of the people of our country still remains highly inefficient. We are fortunate in possessing immense natural resources. But we lack capital, and our organising capacity is very low. The prosperity of our country depends on the solution of these problems.

## CHAPTER 8

### SYSTEMS OF LAND TENURE IN INDIA

The state in India has demanded, from time immemorial, a share in the produce of the earth from every cultivator. In their efforts to collect revenue, the different governments introduced different systems under which land was held in the different states. The different systems of land revenue consisted of three things—each of them contained the principles according to which the revenue from land is to be assessed, it also laid down the methods of collecting that revenue, and lastly, the rights of the person or persons who hold land subject to the payment of revenue. The systems of tenure can be broadly divided into two groups,—permanent and temporary settlements. In the system of Permanent Settlement, the revenue is fixed permanently. In the temporary settlements, the government revises the land revenue after a certain period. These are of three kinds,—*ryotwari*, *mahalwari* and *malquzari* settlements. We shall study them one by one.

**Permanent Settlement** According to the system of permanent settlement, the state recognised the Zemindar as the proprietor of the estates held by him, and fixed for all time to come the revenue to be paid by each Zemindar in respect of his land. The amount of land revenue to be paid to the government was never to be increased. This system was introduced in 1793 in Bengal by Lord Cornwallis. It was later extended to the Banaras district of the Uttar Pradesh, and to North

Revenue was fixed permanently with the Zemindars

**Madras** At one time, the major portion of the lands in Bengal, Bihar and Orissa, about one fourth part of Assam (*e.g.*, districts of Sylhet and Cachar etc.), Banaras and North Madras districts were under the permanent settlement. Under this system the amount of revenue to be paid by each *Zemindar* was fixed for ever. If the *Zemindar* failed to pay the revenue on the due date, his estates was sold away in auction by the government. The *Zemindars* were left free to charge any rent from their tenants. The government, however, reserved the right to pass laws to protect the rights of such tenants. As the settlement was made with the *Zemindars*, the system was also known as the *Zemindari Settlement*. But there were *Zemindars* in other parts of India (for ex., in Oudh), but their revenue was not fixed permanently.

**Temporary Settlements** Under the system of temporary settlement, the state did not fix permanently the amount of land revenue to be paid by each holder of land. The revenue is fixed generally for a certain number of years, after which a new assessment is made with the *ryots* individually, or with them collectively, or with a proprietor or a group of proprietors. These are known as the *ryotwari*, *mahalwari* and *malguzari* settlements.

Revenue is determined for temporary periods

**Ryotwari Settlement** When the government enters into an agreement with the individual cultivators fixing the revenue to be paid by each of them, the system is known as the *ryotwari settlement*. It prevails in Bombay, Berar, Madras (excepting some northern districts), Assam (excepting a portion). The *ryots* pay the revenue directly to the government. The



assessment is usually made for a period varying from 10 to 30 years. The government officers conduct an accurate survey of the lands in each village, classify them on the basis of their fertility, and make an estimate of the average amount of produce likely to be raised on each class of soil. The officers then determine the value of this produce by multiplying the amount of crops with the average prices of the crops. From this sum, a certain amount is deducted on account of the cost of cultivation. The remaining sum is known as the *net produce*. Not more than 50 p.c. of this net produce can be fixed as the amount of revenue. This is how the revenue is assessed in Madras. In Bombay, a slightly different method is followed. At the original settlement, a classification of soils was made on the basis of their fertility. The officers then determine the rental value (i.e., the rent that is paid or is likely to be paid for each plot of land) of the lands. A certain percentage of the rental value is fixed as the land revenue. At the time of re-settlement, the revenue in respect of each land is increased or decreased according as there has occurred a rise or fall in general prices and in the general prosperity of that part of the State. In Assam, the period of settlement is usually shorter than that in Madras.

The *Mahalwari Settlement* is so called because the unit of assessment is not the holding of each ryot (as in the ryotwari system), but the whole mahal i.e., an estate composed of a village or villages) which is assessed jointly by the government. The tenants of the mahal are jointly and severally responsible for paying the entire revenue to the government. The officers first determine the rental value of the lands in the village. This is based on the actual rents paid in

Mahalwari Set-  
tlement of the  
Uttar Pradesh

respect of the land, or on the estimated rents. Not more than 50 p c, of these net assets is fixed as the revenue to be paid to the government. This system is in force in the Uttar Pradesh and the Punjab.

In the Punjab, the same system prevails with some variations. The revenue is collected through the head man of the village, who is known as the *lambardar*. But the holders of the estates are jointly and severally responsible for the payment of the revenue.

The share of revenue due from each owner is determined separately and may also be collected separately. The cultivators, therefore, are in the same position as the ryots in Bombay and Madras.

The *Malguzari Settlement* prevails in the Madhya Pradesh. The *Malguzars* were originally farmers of revenue in respect to the estates held by them. The government recognised them as proprietors and made them responsible for paying revenue. It is thus a *Zemindari settlement*. But the revenue paid by each *Malguzar* or *Zemindar* is not fixed permanently. The assessment is made as under a *ryotwari* system. The government officers conduct a survey of the village lands and fix the rents to be paid by each tenant.

**Land tenures in different States** We have described the different systems of land tenure prevailing in our country. We shall now describe the systems prevailing in different States. In Assam, the major portion of land is held according to the *ryotwari* settlement. There were, however, certain districts where the system of permanent settlement prevailed. In W Bengal, Bihar and Orissa, land was held according to the principles of permanent settlement. But that system has since been abolished.

In the Uttar Pradesh, there were three different systems of land tenure. Permanent settlement regulations were introduced in the Banaras Division only. Here the settlement was made with the Zemindars, and their revenue was fixed permanently. In the remaining portion of Oudh, a system of temporary Zemindari settlement prevailed. The government entered into agreements with the talukdars or chiefs for the collection of revenue. They were regarded as Zemindars for all purposes, except that the amount of revenues to be paid was not fixed permanently. This was revised at the end of thirty years. The various forms of Zemindari system have also been abolished. In almost the entire province of Agra, the mahalwari system prevails. It has already been described.

In the Madhya Pradesh, the malguzari system prevails in almost the entire State. In the Punjab, there are two systems of tenure, the mahalwari system and the ryotwari system. In Bombay, the predominant system is the ryotwari settlement. In Madras, the ryotwari system prevails in the major portion of the State, excepting the northern part, where permanent settlement was introduced. The latter has since been repealed.

**Permanent or Temporary Settlement?** It is now necessary to make an estimate of the merits and defects of the two different systems of tenure. Originally the British Government was in favour of the permanent settlement. But this opinion soon changed in the favour of the second system. The non-official opinion was generally against the permanent settlement. In Bengal, the original home of the permanent settlement, the majority of the members of the Bengal Land Revenue Commission of 1938 advocated the abolition of the system.

and the introduction of the ryotwari system in that State

**Defects of Permanent Settlement** The permanent settlement was criticised on many grounds. The first charge was that it caused a serious loss of revenue to the government. The amount of land revenue to be paid by each Zemindar was fixed for ever on the basis of the rents collected in 1793, and was about Rs 3 crores. In the subsequent 150 years, the level of rents increased many times. The Zemindars thus collected large sums of money from their tenants. But the revenue paid by them could not be increased. The government, therefore, lost large sums of revenue. It would have obtained more revenue if the revenue was settled temporarily. *Secondly*, the system led to the creation of a large number of sub proprietors between the Zemindars and the ryots. These tenure holders, as they were called, were mere parasites, and were generally more oppressive than the Zemindars. As a result, the actual cultivators had to suffer much. *Thirdly*, the Zemindars gradually ceased to live in the villages. They migrated to the cities and began to live a life of luxury. Their estates were managed by *naibs* and *gomasthas* (i.e., agents). The latter oppressed the ryots and made illegal exactions from them. *Fourthly*, the Zemindars ceased to make any improvement in the villages. The old tanks which supplied water to the people and their lands dried up for want of proper re excavation. The result was an inevitable decline in the agricultural conditions. *Fifthly*, the cultivators had to suffer in another way. Under the terms of the permanent settlement, the government

collected revenue from the Zemindars during all years, good or bad. No remission or suspension of revenue was granted during the years of failure of crops. The Zemindars, in their turn, collected as much rent as they could even during bad years. The ryots got no remission even though the crops failed. But under the temporary settlement, the government grants remission and suspension of revenue during such years. *Lastly*, another serious criticism is that the system was responsible to a large extent for the slow development of industries. Persons with money bought Zemindari estates as these yielded large profits. Investment in land was also regarded as safer than that in industries. Ownership of a Zemindari estate carried great prestige. Hence people with money preferred buying land to investing in industries. Hence few investments were made for developing industries.

**Merits** The advocates of the permanent settlement claimed many merits for this system. *First*, it, for example, brought stable revenue to the government. The amount of revenue varies in the temporarily settled areas with each assessment. Moreover, in the temporarily settled tracts, the officials are always occupied with the ever growing problems of administration and collection of land revenue. But under the permanent settlement, the collection of land revenue became easier, and the officials were able to give more attention to other spheres of administration. *Secondly*, the tenure holders or the sub proprietors constitute an important middle class, and they, along with the Zemindars, have been responsible for the great educational and

Slow growth of industries

Stability of revenue

Creation of middle class

cultural progress of Bengal *Thirdly*, Zemindars made many charitable investments and Charitable in also risked their money for the develop-  
vestments by Ze ment of industries *Fourthly*, from  
mindars the point of view of the government,  
the system secured the loyalty of the Zemindars *Lastly*,  
the periodic assessment of revenue causes much distur-  
bance to the cultivators The permanent settlement  
avoided all these difficulties of temporary settlement

Whatever the merits of the permanent settlement, the prevailing opinion is in favour of the temporary settlement The Zemindars had no interest in investing money in the improvement of land The governments of the permanently settled areas had also no interest in making investments in the improvement of agriculture, because any resulting increase of revenue would be enjoyed by the Zemindars The cultivators were too poor to invest any capital Hence land became nobody's property in the permanently settled tracts It was, therefore, urged that the system should be abolished The government should buy all land from the Zemindars, and introduce ryotwari settlement It will then have more interest in investing money in the improvement of agriculture

In the last few years, all States have taken steps to abolish the Zemindari system Acts have been passed under which the state purchased the rights of the Zemindars after providing for the payment of compensation at various rates to the existing owners of landed estates The exact system of land tenure that is to prevail after the acquisition of Zemindaris is yet to be decided

**Rights of Tenants** In all States the government has been forced to pass laws to protect the rights of the tenants as against the landlords or the state. These laws vary in different States, but have generally followed a similar pattern. The general principles underlying these tenancy laws have been to guarantee fixity of tenure and fair rents to the ryots. Fixity of tenure means that the tenants should not be evicted from their land except for definite reasons (*e.g.*, persistent failure to pay rents). They should also be required to pay only fair rents for the land held by them. The landlord or the state should not demand unreasonably high rents from the tenants. The rate at which rents can be enhanced by the landlords is also definitely limited. Once the rents are enhanced they cannot be raised again except after an interval of 15 to 10 years. We shall now briefly review the tenancy laws passed in the different States.

In the Uttar Pradesh, the Congress Ministry passed an important tenancy Act in 1939. Previous to the passing of this Act, there were mainly the following classes of tenants in that area, *e.g.*, tenants at fixed rates, occupancy tenants, ex propriety tenants, tenants holding on special terms in Oudh, statutory tenants and non occupancy tenants. Occupancy tenants are those tenants who have held land in the village for twelve years. A landholder who has parted with his proprietary rights in land obtains occupancy rights in his home farm at a privileged rate of rent, *i.e.*, 25 per cent below the rate paid by the non occupancy tenants. The statutory tenants enjoyed the right to remain in possession of their holdings during

Tenancy legisla-  
tion in the Uttar  
Pradesh

their life time After their death, their heirs were allowed to hold on to the land for five years only

The tenancy Act of 1939 conferred hereditary rights on all classes of tenants except some non occupancy ryots

The recent Act of the Uttar Pradesh

The heirs of all tenants can now freely inherit their ancestral land They cannot be ejected from their holdings except in cases of prolonged default in the payment of rent The rates of rent

to be paid by them were to be reduced gradually until these were equal to the level of rents prevailing between 1896 and 1905 Once the rents are settled, these cannot be raised until after a period of 20 years The government will remit or suspend the payments of rent during periods of natural calamities The tenants can sub let their holdings for five years The new Act also restricts the grant of *Sir* rights in the case of big landlords to an area of 50 acres

In Bihar, the vast majority of tenants now enjoy occupancy rights These rights are granted to tenants

Tenancy Acts in Bihar

who have occupied lands in a village for twelve years These ryots now enjoy the right to dig wells, build houses and plant trees They enjoy

hereditary rights in their holdings The level of rents is to be reduced to that prevailing in 1911 Rent can not be enhanced except after a lapse of 15 years

In Bengal, a Tenancy Amendment Act was passed in 1938, giving more rights to the tenants As in Bihar,

Tenancy Acts in Bengal

the vast majority of the tenants enjoy occupancy rights Their holdings are heritable, and they can transfer their land They cannot be evicted from

their lands so long as they pay their rent regularly.



Under the Act of 1885, it was provided that their rents could be enhanced on certain grounds. But these cannot be enhanced by more than 2 as in a rupee. And once enhanced, rents could not be increased within the next 15 years. By the Act of 1938, these landlords were prevented from increasing rents during the next 10 years. As a result of these Acts, the tenants in Bengal enjoy substantial rights against the landlords.

The Congress Ministry of Bombay also passed a Tenancy Act in 1939 to safeguard the rights of the tenants. This Act created a new class of "protected tenants". They cannot be evicted from their lands which they have held and cultivated for a period of not less than six years from 1932. Their heirs can inherit the land under certain restrictions. The rent to be paid by them will be determined, in the absence of an agreement between the landlord and the tenants, by the officers of the government. Their rents will be suspended or remitted during natural calamities. No agricultural lease can be granted for a period of less than ten years. This was done to encourage the tenants to make improvement in land. Thus the tenants in Bombay have also been granted reasonable protection regarding fixity of tenure and rack renting by landlords. Similar legislation has also been passed in other States.

**Land reforms in the Second Plan** The Second Plan contains a number of far reaching recommendations for carrying out reforms in the land system. By 1955-56, the abolition of Zemindaries has been completed over the greater part of the country. The number of tenure holders who held land between the Zemindars and the cultivators has been reduced, though not eliminated. There are now three main categories of persons sub-

sisting on land,—the owners who hold land directly under the state, the tenants who hold land from the owners, and the landless labourers. The rights and obligations of the first two groups of persons have not yet been properly integrated with programmes of land reform. To remedy this defect the Planning Commission have set forth a number of proposals for the reform of the land system in the country.

The basic idea on which these proposals have been formed is that "small peasant owners will in the immediate future form the main body of cultivators." Persons who hold one family holding or less, *i.e.*, an area of land which yields a gross average income of Rs. 1600 per year, or a net annual income of Rs. 1200 (including remuneration of family labour) and is not less than a plough unit, are to be regarded as small cultivators. To ensure the preponderance of small cultivators the Second Plan makes two proposals. *First*, the owners of land should not be allowed to resume land from their tenants for personal cultivation beyond a certain limit. This should be fixed at one family holding, subject to a minimum area being left to the tenant. If, as a result of such resumption of land by the owner, the holding left to the tenant becomes smaller than a basic holding, the government should endeavour to provide him with additional land for cultivation so as to bring his holding to the level of the minimum area needed for profitable cultivation.

*Secondly*, there should be an absolute limit to the amount of land an individual may hold. As a general rule, such ceilings on land should be fixed at three times the family holding for an average family of 5 persons, or a maximum of such holdings where the number of members is larger than five. But the actual land

ceilings should be determined by each state on the basis of the prevailing local conditions. Such land ceilings should not, however, apply to the tea, coffee and rubber plantations, orchards, specialised farms engaged in dairying, wool raising etc. If a person is found in possession of land in excess of the ceiling, the excess is to be acquired by the government compulsorily on payment of compensation in the form of bonds redeemable in 20 years. This land is to be distributed among the tenants and the landless labourers.

The second part of the land reform proposals relates to the tenants. Steps are to be taken to bring all such tenants into direct relationship with the state. As far as possible, the amount of rent should be reduced to a level not exceeding one fifth of the produce of land. It is desirable that the state should undertake the task of collecting rent from the tenants and pay it to the landlord after deducting the cost of collection. As a sort of final picture, the Plan looks forward to a situation when the tenants will become the owners of land they cultivate. This will happen in two stages. At first the state should buy out the land held by the tenants from their owners on payment of compensation in the form of bonds redeemable in 20 years when circumstances and the financial condition of the state permit it to do so. The tenants, however, would have to pay rent so long as the liability of the state in respect of the payment of compensation to the owners continue. But after the liabilities are cleared, tenants would probably become the owners of land. In addition, solvent tenants may be allowed to buy the interests of the owners at a price which shall be "a suitable multiple of the rental value of land or of land revenues."

*Thirdly*, greater attention is to be paid to the question of providing land for the landless labourers. During the first plan period, minimum wages have been fixed for such labours, and some attempt has been made to allot residential sites for them. In the Second Plan-period, it is recommended that each state should draw up detailed schemes for the re settlement of such workers on land after assessing the areas likely to be made available. *Bhoodan* land should also be brought into those schemes.

All these proposals are meant to clarify and stabilise the rights of the different groups of people who live on land. A rural structure based on such a body of small peasant owners can succeed in raising a larger output of crops only if land is cultivated with care and efficiency. Hence all proposals for land reform should contain provisions requiring all cultivators to maintain reasonable standards of efficient production and to preserve and develop the fertility of the soil. Those who repeatedly fall below such standards should be warned and legislation should include such measures as the issue of directions to such cultivators, supervision of their work, and in the last resort, for the assumption of management of their land.

This is the main outline of the proposals of land reform included in the Second Plan. The picture would be incomplete unless certain other measures are considered at the same time. All states should pursue a vigorous programme to secure consolidation of holdings. In this connection peasants owners and others should be encouraged to form co operative farms. The aim should be to enlarge co operative farming at the expense of individual farming so that ultimately the entire land of the village or groups of villages is cultivated.

on that basis. Thus while land should be cultivated on a co-operative basis, the agency which is to provide leadership in the village is the *Panchayat*. The development of a vigorous body of *Panchayats* should therefore form an integral part of all land reform programmes.

The ultimate goal of this process of re-organisation is what the Planning Commission has called 'the *co-operative village management*'. The primary object of co-operative village management will be to ensure that the land and other resources of the village are to be organised and developed from the standpoint of the village community as a whole. There has to be a good deal of trial and experiment before the most suitable patterns of such co-operative village management are evolved. The ideal also implies that the ownership of land belongs to the peasants. But with the progress of land reform the number of owners of land will increase and the existing disparities in the ownership of land will be greatly narrowed. All others would be provided in the village with opportunities for gainful work in agricultural as well as non-agricultural activities. Once this stage of co-operative village management is reached, the distinction between those who have land and those who have not will lose much of its significance.

This is the broad picture of the future village economy envisaged by the Planning Commission. The details are yet to be drawn up, and the proposals will have to be carried out by the different states busy with their own special problems. A large number of states have accepted the proposal relating to the land ceilings and this has been incorporated in several Bills. This concrete proposal has, however, come in for a good deal of criticism. To place ceilings on land holding means that the income from cultivation would also be limited. Is

there any justification for putting a limit to the money incomes of those who cultivate land, while the incomes of the non cultivating classes have been left free ? It is of course true that the supply of cultivable land is limited and all persons who depend on land for their livelihood should have some plot of land to cultivate and own. If, on account of this reason, a ceiling on land holding is to be fixed, it is only proper that similar limits should also be placed on all other forms of income. Moreover, large holdings are essential for the introduction of scientific and mechanical methods of cultivation. A break up of these holdings into smaller units may thus be an important factor in preventing the maximum development of land.

## CHAPTER 9

### COTTAGE AND SMALL SCALE INDUSTRIES

India occupies the eighth place in the list of industrialised countries of the world. But the number of big organised industries is comparatively small in our country. Most of the industries are organised on a small scale. This will be evident if we look to the proportion of workers engaged in industries. According to National Income Committee, only 10.7 per cent of the total number of workers in 1950-51 are engaged in industries. Of them, however, the big organised industries support only 2.6 per cent of the workers. The rest (i.e., 8.18 per cent) are engaged in small, unorganised industries. 9.5 per cent of the national income of India is produced by the small industries as compared to 6.5 per cent from mining and factory establishments. Hence we can easily understand the important place which small industries occupy in our economic organisation.

**Cottage Industries** Unlike the western countries we have to devote more attention to the small industries.

These are known as the cottage industries. They are so called because the manufacture is carried on generally in the home of the artisan himself and occasionally in small *harkhanas*. India was once famous for her cottage industries. The works of luxury and art produced by these industries were prized all over the world. Many of these artistic industries gathered round the royal courts in the pre-British days. The rich patronage of

the kings, nawabs and other noble men was responsible for the full growth of these industries. But with the establishment of the British Raj, fashions changed, and our Rajahs and Nawabs ceased to patronise the goods produced by the cottage industries. Hence many of these began to decline. Another cause was the competition of machine made goods which were sent from England. As these were cheaper, they displaced the products of the cottage industries. So one by one these have died, and those which remain are facing an acute struggle for existence.

### Definition of Cottage and Small Scale Industries

A cottage industry has generally been defined as one which is carried on by the artisans in their own homes or in small *karkhanas* mainly with the help of the members of their family. These are the traditional industries of India and are situated mostly in the rural areas, though quite a number of them are to be found in the urban centres. These include the industries supplying the ordinary requirements of the people such as the handlooms, rice pounding, tanning and leather; oil pressing *ghanis*, pottery, rope and basket making etc. In addition, these industries produce things of artistic skill.

A small scale industry is one which has a capital of less than five lakhs of rupees and employs less than 50 persons. These are located mostly in urban and semi urban areas, and may be divided into three types: these manufacturing complete articles like cutlery, hardware, locks, sports goods etc., those which act as feeder shops and undertake foundry work, forging, welding, electro plating etc., and lastly the servicing



units which carry out machinery repairs. These industries thus cover a wide range of products.

**Important Cottage Industries** A brief description of some of these cottage industries would not be out of place. *Handspinning* was almost universal among women in ancient India. But the competition of machine spun yarn resulted in the complete disappearance of this industry. It has however been given a new lease of life as the result of Mahatma Gandhi's movement. It has been suggested that there is no future for this industry. Hand spun yarn is less strong than the machine spun yarn and machines are more productive than the spinning wheels. This is no doubt true. But the *charka* provides spare time occupation for the cultivator and his family most of whom remain idle in between the agricultural seasons. Recently an attempt is being made to revive this industry through the introduction of the *Ambai Charka*.

The most important of the cottage industries is the *handloom industry*. It has always been the most important industry after agriculture. The industry supplied 74.8 per cent of the cotton piece goods consumed in India in 1950-51. It provides occupation to nearly 21/2 million workers and produces goods worth Rs. 50 crores per year. It is carried on all over the country. Among Indian States Madras produces the largest quantity of handloom cloth. The notable centres of production in that State are Madurai, Salem, Coimbatore, Conjeevaram, etc. Bangalore city in Mysore is well known for its silk and cotton *saris*. In the Uttar Pradesh there are many important centres. Farukhabad is well known for its

cotton printing, Fyzahad is noted for *jamdani* cloth, *malmal* and other cotton and artificial silk fabrics; Barabanki is a large weaving centre, Bijnor produces *gasha* and other cotton fabrics. In Bihar, Darbhanga, Madhubani and Bihar Shariff are famous for a wide variety of plain cotton cloth. In Orissa, Sambalpore and Barpalli make *saris*, *chaddars*, coatings and shirtings, and Thakurpatta is noted for making *saris* with fine figure work on border. In the Madhya Pradesh, the cotton fabrics of Burhampur are considered second only to those of Dacca. Nagpur is also a thriving centre of *sari production*. In W Bengal, the most famous centres are Santipur, Antpur, Dhanekhal, Rajbalhat, etc. In Bombay, the best known centres are in Kankarnatta and Maharashtra.

The cotton handloom industry is now in a depressed condition owing to the competition of cotton mills, both Indian and foreign. But it enjoys some special advantages for which it will not die out.

Possibilities of  
handloom indus-  
try

The weaver possesses a good deal of inherited skill, and he can manage his business with small capital. Secondly,

he gets the help of the members of his family, especially of the women and children. In this way, his costs of production are usually low. Thirdly, he carries on his business along with agriculture. As he follows a subsidiary occupation, his expenses are to that extent lowered. Lastly, he produces artistic clothes, each with a different pattern. The great merit of handloom cloth is its distinctiveness and delicacy of workmanship. "It is said that wealthy women in America are prepared to pay very handsome prices for the rough unfinished hand woven cloth from India, because it has a uniqueness about it." Here the mills cannot compete with him. He also pro-

duces coarse clothes which are preferred by the village people on account of their durability. This industry is, therefore, sure to survive.

*Silk weaving* is another cottage industry, though it is much less important than the cotton handloom industry. It exists all over the country. But it is more important in Bombay, Mysore, Madras, the Uttar Pradesh, W Bengal, and Assam. The silk *saris* of Banaras are a household name in India much sought after in marriage seasons. The Bangalore City is also noted for its silk *saris*. In Bihar, the principal centre is Bhagalpur, noted for its *tassar* silk. Berhampur in Orissa, Sualkachi in Assam, Murshidabad, Bishnupur in W Bengal are also important centres of silk production. Allied to it is the *Sericulture industry*. It includes the rearing of silk worm and spinning. It is an important cottage industry in Mysore, Kashmir, Assam, and Murshidabad, Malda and Birbhum districts of W Bengal. This industry supplies about half the total demand for raw silk on the part of the Indian weavers.

The *Woollen industry* was once famous for the production of artistic goods like shawls, carpets, etc. But now it is in a dying condition. It is found mainly in Kashmir and Mirzapur in the Uttar Pradesh. Ludhiana in the Punjab produces large quantities of *pashmina* and shawls. It also produces large quantities of rough blankets for the use of the common people.

In addition, there are many other cottage industries like the brass and bell metal industry, chiefly found in Banaras, Moradabad in the Uttar Pradesh, and Murshidabad, Srinagar, etc., the pottery industry manufactur

ing clay dolls and utensils, especially of Krishnagar in West Bengal, the bangle making Brass and Bell industry in the Uttar Pradesh, the metal industry goldsmithy, *bidri* making industry, oil pressing *ghanies*, sweet meat making, rice pounding, etc. Some of these industries are carried on by artisans as their whole time occupation. Others are carried on as a secondary occupation by people who are mostly cultivators. Into this class belong the industries of basket making, rice making, gur making, cane and bamboo work and matting, rope making, etc.

**Place and Importance of Cottage Industries** There are many reasons why we should pay a good deal of attention to the development of cottage industries in our country. In the first place the number of people who derive their livelihood from cottage industries is more than the number employed in modern factories in spite of the development of large scale industries. To take an example, the cotton textile mills provide employment for 1 million workers, while the handlooms employ about 5 million people. Hence it is essential that we should pay attention to the development of cottage industries.

Secondly, these cottage industries provide subsidiary occupation to the agriculturists of our country. The cultivators have to remain idle for a large part of the year and they adopt some cottage industry in the off season and in their leisure hours, they will be able to add to their meagre incomes. The development of cottage industries will, therefore, be a way to solve the problem of rural poverty.

Thirdly India possesses a large population and small capital. If she is to provide employment for all

the people, she will have to develop industries which require small capital but which provide jobs for a large number of people. Cottage industries are of this type. These industries can be established with comparatively small amount of capital, whereas more people will be able to get jobs in these industries than in large scale factories.

Fourthly, the development of cottage industries will reduce the evils of congestion and over crowding in cities. These industries can be established in the rural areas, and so the people need not migrate to the cities and towns in search of jobs.

Lastly the development of cottage industries will result in the reduction in the inequality of incomes. When big industries are set up, a few owners become very rich, while the majority remain poor. If cottage industries are developed, nobody will be very rich, and there will be a wider diffusion of wealth in the community.

Hence the Planning Commission have rightly stressed the importance of developing cottage industries.

**Difficulties** Most of these industries are now in a depressed condition. *The difficulties of most of these industries are substantially similar.*

Old methods of production These are due mainly to the prevalence of old methods, lack of any organisation and the want of sufficient capital. The methods of production are very old. The artisans are still using in many cases crude implements fashioned by their forefathers in the hoary past. The wool weaver's handloom is still of the old type and the oil pressing *ghanies* still retain the old form, shape and size. There has also

occurred no change in the methods of production. The artisans still pursue the old methods of manufacturing goods. They do not move with the times. They are mostly illiterate and do not know the recent improvements. Secondly, many of them also lack suitable technical skill as they have very little opportunity of getting such training. Thirdly, want of money is the root of most difficulties. The artisans are very poor, and do not possess sufficient capital to purchase raw materials and to hold their finished goods. Like the cultivators, they are also heavily indebted to the mahajans and have fallen in their grip. The latter finance the artisans, supply the yarn and other raw materials, and buy the finished products. The artisans are often forced to buy their raw materials dear and to sell their finished goods cheap. Lastly the most fundamental difficulty is with regard to the marketing of the products. The artisans find it very difficult to sell their output at anything like a remunerative price. There is practically no organisation to sell their products.

**Improvements** In view of the place which these cottage industries occupy in our industrial organisation, it is necessary to adopt suitable remedies for solving these difficulties. First, steps should be taken to devise improved implements and improved technique. The Departments of Industries should make experiments with improved types of implements. These should be popularised among the artisans by organising exhibitions, demonstration parties, etc. Arrangements should be made in such a way that the artisans could purchase

them by paying easy instalments Secondly, the problem of insufficient capital should be solved by organising co operative credit societies among the artisans If possible, the government should grant small loans to the artisans Thurdly, the marketing defects can be solved by organising co operative sale societies Sales rooms and museums should be established in all important centres of trade and in foreign countries where the goods should be on sale There should be organised a *Central Sales Agency* like the All India Village Industries Association It should open shops, and conduct propaganda in order to create popular taste for the products of the cottage industries Fourthly, it should take steps to teach the artisans to produce goods suited to modern tastes and fashion It should supply new designs and patterns to the artisans They should be encouraged to produce specialities and artistic goods Lastly, the artisans must also be suitably educated Technical schools should be opened in all important centres of these industries The artisans should be given adequate training in the improved techniques of production Many writers have suggested that provisions should be made for the supply of cheap electric power to these industries This is already being done in Mysore

*But is it possible to keep these industries alive ?* Is it not that our efforts to improve them will prove abortive ? Production in large factories is more economical than small scale production Hence these cottage industries will not be able to compete successfully

with the large scale factories But we already know that in spite of the economies of large scale production, the small producers have not been driven out from all fields

Causes of survival of cottage industries They survive in the production of artistic goods, and things for which the market is usually small The weaver, for example, possesses much inherited skill, and can get the help of the members of his family, especially the women and children who would otherwise have remained idle He can keep down his cost of production in this way The weaver also produces artistic *sarees*, each with a different pattern and these are much preferred by the ladies The factories cannot hope to compete with a *Banarasi Saree*. *There is also an urgent need for maintaining our cottage industries as these provide spare time work to the agriculturists who have to remain idle for the greater part of the year and to the women who cannot adopt any other occupation* The artistic industries must also be kept alive so that the industrial skill and the fine artistic aptitude of the artisans may not be lost

The State and the small industries The importance of these industries was well recognised in the First Plan, and concerted attempts were made to improve the organisation of the industries The government took steps to set up six All India Boards for the development of these industries These are (1) the All India Handloom Board, (2) the All India Khadi and Village Industries Board, (3) All India Handicrafts Board, (4) the Central Silk Board, (5) the Coin Board and (6) the Small Industries Corporation The activities of these Boards taken together cover almost the entire field of the village and small industries The main function of



these Boards is to examine the problem of these industries and to devise steps for improving their organisation and marketing. The Government of India have placed funds at the disposal of these Boards which are spent by them for the improvement of these industries. For example, in 1953 the Parliament passed legislation authorising the levy of a cess or additional excise duty on mill made cloth. The proceeds are handed over to the Handloom Board and the Khadi and Village Industries Board for rendering financial assistance to these industries. Rebates are granted to the khadi industry and the handloom in order to enable them to sell their output at lower prices.

Secondly, followed the recommendations of an International team of experts, the Government of India have set up four Small Industries Service Institutes at Bombay, Calcutta, Madras and Faridabad with branch units in the U.P., Bihar, Hyderabad and Travancore Cochin. These Institutes are expected to provide various kinds of technical service to the small industries such as information about improved techniques of production etc. They also propose to set up model workshops for such industries as carpentry, pottery, blacksmithy etc. In addition, another organisation, the National Small Industries Corporation, has been established with an authorised capital of Rs. 1,000,000 subscribed by the government. The Corporation will secure contracts for supplying various types of goods needed by the government,—goods that may be produced by the small industries. Such contracts will then be distributed by the Corporation among the small industrial units, collect them when production is completed and submit them to the government. It will also provide the financial and technical assistance necessary to execute these orders.

Some attention has also been given to improve the marketing organisation. Some State Governments have established large emporia and museums in big cities. A Central Marketing Organisation with regional offices and showrooms and an export marketing organisation with marketing officers stationed at important foreign centres have already been set up. In addition, an All India Handloom Fabrics Marketing Co-operative Society has also been set up and the Apex Societies in the States will be affiliated to this institution.

The result of all these measures has been encouraging. The production of handloom cloth, for example, is reported to have increased for 843 million yards in 1951 to 1318 million yards in 1954, and is expected to exceed 1,500 million yards in 1955. Production of *khadi* has also more than doubled from Rs. 1.3 crores in 1950-51 to Rs. 3.5 crores in 1954-55 when output will exceed 18 million square yards.

**The Small Industries and the Second Plan** As compared to Rs. 32 crores provided in the First Plan for the development of small industries, the Second Plan has increased the allotment to Rs. 200 crores. The Second Plan has not only proposed to increase the amount of investment expenditure on these industries, it has also given a very prominent place to these industries in its scheme of development. The plan has laid a considerable emphasis on the development of what are called "heavy industries", *i.e.*, industries which require a large investment of capital, such as the iron and steel industry, machinery industry etc. The development of these industries would thus absorb the major portion of the funds to be earmarked for industries. But they would not provide much employment for the people. Moreover, these industries produce capital goods to be

used in the making of other products. But the people employed in these industries as also others employed elsewhere would want to buy consumer's goods like cloth, utensils, sugar, shoes, oil etc. So it will be necessary to produce these consumer's goods in large quantities to satisfy the demand of these people. These consumer's goods, for example, cloth, may be produced in the large factories or in the small units like the handlooms. We may provide for an increased production of cloth by setting up more cotton mills. But these large factories also require large investment of capital,—much larger than what would be needed to set up handlooms, and they also provide less employment per unit of capital invested in comparison with the handlooms. After investment in the heavy industries, we will be left with a comparatively small amount of capital. The number of large factories that could be established with this amount of capital would not produce enough consumer's goods to satisfy the demands of the people, while the number of additional jobs they would provide would be insufficient for the absorption of the unemployed men. Hence the Planning Commission decided to concentrate on the large scale development of small industries as the next step in the process of industrialisation. These industries require comparatively small amount of capital for their development and they provide more employment per unit of capital invested. To take an example, a cotton mill would probably require an investment of (say) Rs 40 lakhs and would provide employment for (say) 500 people. If the same sum is invested in the handloom industry, a large number of handlooms could be set up, providing employment for (say), 1,000 men. The framers of the plan have, therefore, laid it down that steps are to be taken to develop these small industries to such an

extent that these would be able to produce enough consumer's goods to meet the additional demand of the people. The existing factory industries would be allowed, and even encouraged, to produce up to their maximum capacity. But as a general rule no new large factories are to be set up in the present plan period.

The small industries may not, however, develop to the necessary extent if they have to face the competition of large factories. The handlooms, for example, are finding it difficult to sell in competition with the mills. So the Planning Commission have proposed to adopt what it called, "a common production programme" to regulate the competition between the large and the small industrial units. This programme includes three points. First, where necessary, steps would be taken to demarcate the spheres of production of the large and the small units. For example, the types of goods which the small industries can produce with comparative advantages should be left to them while the remaining varieties are to be left to the large factories. An industry produces goods of various kinds. Some of them are to be left exclusively to the small industries, while others would be manufactured in factories. Secondly, a limit should be placed on the productive capacity of the large industry. For example, it may be laid down that no new cotton mill will be allowed to be established. As a result, cotton mills will not be able to increase their output beyond a certain maximum amount. The productive capacity of the cotton mills may thus be limited to (say) 5 000 million yards of cloth. If the demand for cloth rises above this amount to (say) 7 000 million yards, the handlooms will be able to secure this additional demand for 2 000 million yards of cloth. Lastly, the programme includes proposals for the levy of a cess on the output.

of the large industry. The proceeds of this cess are to be utilised in granting a subsidy to the small industries. Thus the government has already levied a cess or an additional excise duty on the cloth produced by the cotton mills, and the proceeds of this cess are spent in granting a rebate to the handlooms. As the mills have to pay the cess, the prices of cloth produced by them will rise, while at the same time the prices of handloom cloth will decline on account of the payment of the rebate. In this way the handlooms will be better able to meet the competition of the mills.

Lastly, the Second Plan has laid emphasis on two other proposals for securing the expansion of these industries. One is the organisation of *industrial co-operatives* on a large scale. These are the co-operative societies of various types which are to be organised among the artisans and the people engaged in the small industries. Financial assistance is to be provided to enable these people to form co-operatives. The government already contributes 75 to 80 1/2 p.c. of the value of the shares to the weavers to enable them to organise a society.

Secondly, *industrial estates* are to be established in the urban and semi-urban localities where an organised attempt is to be made to provide adequate facilities for solving the difficulties of the small industries such as the supply of electricity at low rates, facilities for repairs, facilities for the training of the workers, availability of *technical assistance etc*.

These proposals have, however, come in for a good deal of criticism. A number of economists have stated that while accepting a large part of these recommendations, they are not prepared to agree upon the necessity

or urgency of the proposals included in the common production programme. As the Second Plan has proposed to finance the investment expenditure by creating large quantities of new money, this will lead to inflation unless steps are taken to increase the supply of consumer's goods proportionately. They doubt the capacity of the small industries to meet this increased demand for consumer's goods. Handloom production has of course increased in recent years. But will the handlooms be in a position to double their output in the next five years in order to meet the estimated demand for additional cloth? Hence, in their opinion, restrictions should not be placed on the capacity of the large factories, and the latter should also be allowed to increase their output to the extent necessary to meet the threat of inflation.

## CHAPTER 10

### INDUSTRIES

**Large Factories** India has also developed a number of large industrial establishments. These were started about a century ago, mostly by foreigners. We shall give here a brief description of some of the more important manufacturing industries.

**Important Manufacturing Industries** The *cotton mill industry* should be mentioned first as it was practically the first industry on modern lines to be established by Indians. The first cotton mill was started at Calcutta in 1818. But the real growth began when the first factory was established in Bombay in 1853. Since then there has occurred a rapid development of this industry. It supplies more than 66 per cent of the total consumption of cotton cloth in India. At the present moment, four areas, Bombay, Madras, the Uttar Pradesh and W Bengal, lead in the production of cotton goods. The industry is more or less localised in Bombay and Ahmedabad, the Bombay Presidency possessing nearly 60 per cent of the total number of mills in India. The localisation of the industry in Bombay was due to the fact that Bombay possessed good facilities for abundant and cheap credit, and facilities for transport by rail and by steamer and a large supply of labour and raw materials. The majority of the mills are organised on the joint stock basis, and the capital has been subscribed mostly by Indians. The management is also in the hands of Indians.

Next in importance stands the *iron and steel industry*. Though the first factory on modern lines was started in the 19th century, the real growth came with

the establishment of the Tata Iron and Steel Company at Sakchi in Bihar in 1907. There are at present 4 or 5 companies manufacturing iron and steel, all except one being situated in Bihar and W. Bengal and only one in Mysore. The industry is owned and managed by the Indians. The future outlook for this industry is very bright. Many other subsidiary industries have also grown up in and around Jamshedpur for the manufacture of various steel products. During the Second Plan, three more iron and steel factories will be set up by the government.

The *sugar industry* is of recent growth compared to the first two industries. Though India possessed a few sugar mills, the real progress came after 1930 with the grant of protection to the industry. The number of mills increased from 31 in 1932 to 156 at the present day. They are mainly managed by Indians and are localised in the Uttar Pradesh and Bihar. Sugar is also manufactured according to old methods and these concerns are known *Khandsaris*.

The *Jute mill industry* is an old industry. The first jute mill was started at Risra in Bengal in 1855. The industry is highly developed, and most of the mills are situated on the banks of the river Hooghly within a short distance of Calcutta. The industry is managed more or less by Europeans, mostly Scotchmen. In recent years Indians have started a few mills.



The beginning of the Indian *paper industry* was from 1870 when the first paper mill was established at Bally near Calcutta. A large number of mills have since been established. The big mills are under European management.

We also possess a large number of factories manufacturing Cement, Matches, Glass, Leather goods, Chemicals, etc. India is also the second largest tea producing country in the world. There are more than 5000 tea plantations. The industry is mostly localised in Assam and W Bengal. South India contributes only 18 per cent to the total output raised in India. The capital and management are mostly Europeans.

**Gaps in Industrialisation** Thus we have been able to develop a few industries on modern lines. Some of the main industries like textiles, sugar, steel and cement that have been developed may be said to be of considerable size. But there are important gaps in the industrial organisation. India has only a few capital goods industries. Machinery and machine tools, automobiles and tractors, electrical engineering and heavy chemicals are some of the important key industries which have not been developed or have been developed only on a very small scale. Thus in spite of the advance made in regard to some industries the position with regard to the development of industries remains unsatisfactory, and a great effort is needed to make up the lost way in this field by developing the capital goods industries.

**Causes of Industrial Backwardness** *What are the causes which are responsible for the slow development of industries in our country?* The most important reason is that our young men do not take up

business careers in the way in which their friends in Europe and America do. The social atmosphere and the system of education have made the educated classes disinclined to take up a business career. This tendency is fortunately changing and more and more young men are now anxious to develop the trade and industries of the country instead of seeking a soft job on a fixed salary. *Secondly*, we also lack sufficient capital. The vast majority are too poor to save and invest. The richer classes prefer safe investments like landed properties or government securities. They do not always like to risk their money in starting new industries. Hence we have lagged behind, and the majority of our industries have been developed by Europeans. This "shyness" of our capital is also breaking down and investment in the shares of joint stock companies has increased in recent times. *Thirdly*, another serious defect is with regard to the supply of skilled labour. Indian labour is inefficient. Indian industrialists are seriously handicapped in competition with foreigners as a consequence of the inefficiency of our labour. *Fourthly*, another important defect which is responsible for our industrial backwardness is the lack of adequate power resources. We produce oil in negligible quantities. Our coal mines are situated mostly in Bihar and W Bengal. The remaining parts of India get coal from these areas by paying large freights. This raises their costs. Hydro electricity is yet in an undeveloped state. *Lastly*, the attitude of the state has also been an important factor. The development of indus-

tries in Japan and other countries has been due, to a large extent, to the encouragement given by their governments. But the government of India followed, before 1947, a policy of indifference to the development of industries. This policy has been reversed only after the achievement of independence.

**Suggestions for improvement** India, we know, possesses an abundance of natural resources. She has plentiful supplies of coal and iron ores, manganese, mica, copper and other minerals. She is the world's largest producer of jute, second largest producer of raw cotton. Her resources stand unrivalled in food crops. Her forests are as yet untapped. Her power resources are immense and almost undeveloped. The huge man power opens up wide markets for her products, and is the potential source of a large labour supply. But she lacks mostly capital and enterprise. This can be easily remedied. The shyness of capital is rapidly decreasing. This is a welcome sign. The banking system of the country should be developed on sound lines. These banks will gather the saving of the people and invest them in the development of industries. The young men should be encouraged to take up business careers. Promising youths should be sent to the foreign countries to learn business methods and technique. The aspiration for a foreign degree and a government job should go. Our young men should go to foreign countries not to get degrees, but to learn business. The government can do much in this direction. The government can

encourage industrial development in many ways, *e.g.*, by the grant of protection, by the grant of financial and other concessions, by encouraging the purchase of domestic goods for the various departments and for their employees, by organising industrial exhibitions, etc. If the rich people know that the government means business, they will get more confidence regarding the safety of their investment. They will not hesitate to supply their capital for starting a business.

**Development of Industries or Agriculture?** This demand for the industrialisation of the country is not

Is India destined to be an agricultural or manufacturing country?

accepted by all writers. Some have argued that India is pre-eminently an agricultural country, and should remain so. Nature has destined India to be an agricultural country. She possesses

special facilities in this direction. Indians do not have large capital. But large scale factories cannot be developed without large capital. The small capital that we possess should better be diverted to the improvement of agriculture. India possesses not only small capital, but she also lacks an adequate supply of skilled labour. Hence India will not be able to compete successfully with the old, established manufacturing industries of the west. Possessing large capital and highly skilled labour, the latter will be able to produce goods at lower prices, and so undersell the Indian manufactures. On the other hand, India can produce agricultural crops at much lower cost than in the west as she possesses rich, fertile soils. So it would be better if she devotes herself only to agriculture, and buy the manufactured goods from the west at cheaper prices in exchange of her crops. India will then be able to

avoid the evils of industrialism, which have become serious problems in the west

But these people look only to one side of the situation. We possess, no doubt, immense facilities for agricultural development. But absolute dependence on agriculture has always been a serious defect of our economic life. Too many people live on the land in our country. If agriculture is to be improved, large scale farming must be carried on. That will mean that a large number of the peasants must be driven away from the land. Otherwise the holdings will remain as small as ever. Where will these people go in search of their livelihood? They can only be given occupations by developing the industries. At the present rate of growth of population, agricultural improvement is impossible without the development of industries. Too much dependence on agriculture is not desirable. What will happen to the people if this sole means of subsistence fails as a result of scanty rains? We must not rely too much on land.

It is wrong to say that we do not possess sufficient facilities for the growth of industries. A list of the industries given above is sufficient to refute this statement. The defects of our industrial organisation can be remedied with a little care and state help. The development of industries is the most crying need of our country. *The last war has taught the lesson that we must industrialise, or perish as a nation.* If India aspires to the position of a first class nation, she must take steps to secure a more rapid development of industries. This will increase our national income, and solve the great problem of poverty.

Too much dependence on land is bad

We should develop both industries and agriculture

of the masses. Thus it will confer immense benefits on India.

**Managing Agency System** One important characteristic of our industrial organisation is the existence of the managing agency system. To develop the industries, a large number of joint stock companies have been organised. The managing agents consist of individuals or firms which undertake the task of managing these companies. The shareholders of these companies appoint them as managing agents of the industrial concerns. Often the managing agents have taken the initiative in organising the companies from the start. They start an industrial concern, manage it, and finance it on some occasions. If, as a result of their management the company earns profits, they receive a certain percentage of these profits as their remuneration. In addition, they also receive a fixed sum of money from the company for meeting their office expenses. Usually, these managing agency firms are hereditary, though some of them have been organised on the basis of limited liability.

There is no doubt that this system has conferred great benefits upon the country. (a) The managing agents have borne the burden and losses of industrial development. (b) On many occasions they have shown great pioneering abilities, and many of the concerns are managed with high efficiency. (c) Some of them have rendered large financial help to the industrial concerns under their management, especially during periods of depression. Industrialisation in India owes a good deal to the abilities and foresight of the managing agency system.

But the system has also given rise to grave evils. Though these firms are managing agents in name, they

are the virtual dictators of the concerns under their management. They have often tried to exploit the industrial concerns, and extract large sums of money, leaving only a small share of profits for the shareholders. As a result, shareholders have received very low dividends. This fact has served to induce them not to invest any more money in industrial shares. The system is thus responsible to some extent for the comparatively small flow of capital for industrial development. A second defect lay in the hereditary character of the system. There is no guarantee that the son of an enterprising parent will also inherit his father's qualities. After the death of the father, the firm will go to the inefficient son, and the management of the industrial concerns will suffer as a consequence.

Many other complaints have also been made against the managing agency system. The government has taken certain steps to check the abuses of the system. Recently a Committee has recommended that the tenure of office of the managing agents should be limited to 15 years, and that their remuneration should not exceed a certain percentage of the net profits of the concern with a minimum in case of no or low profits. Thus if the system is properly reformed, we shall retain its advantages without its defects.

In 1955 the government has passed the Company Law (Amendment) Act, which has placed many restrictions on the working of the managing agency system. Thus the Act has sought to restrict the tenure of the managing agents. The term of appointment of all existing managing agents shall expire at the end of 1960, and their reappointment for another period of 10 years has got to be approved by the government. It has also restricted the rates of remuneration to be paid

to the managing agents to reasonable figures. This Act does not abolish the system, though the government has got the power to abolish it in any one or more industries. But the system has been put virtually on trial for good behaviour until 1960, and its ultimate would depend on how it worked during the next four years.

**Financing of Industries** Industries require capital for various purposes. A businessman starting a factory will first require capital for the construction of factory buildings and for the purchase of machines and tools. This capital will have to be invested for long periods. Secondly, he must have capital for the purpose of buying raw materials, paying wages, etc. This capital will have to be invested for short periods as the businessman will get it back when the final products are sold in the markets. So in financing industries, a business man needs two types of capital,—one for long periods for buying machines etc., and another for short periods for buying raw materials, etc. He may find all his requirements of capital out of his own resources. But this is not possible as modern businesses require large capital. So a businessman has to raise capital from other sources, *viz.*, by selling shares, by borrowing from banks, etc.

In India, businessmen raise capital by selling shares among the public, by borrowing from banks and from other sources. But they often find it difficult to raise sufficient capital in all these ways. In the first place, moneyed people of our country do not prefer investment of their funds in the purchase of shares. So excepting a few influential businessmen, the majority find it difficult to raise enough capital by the sale of shares. Secondly, banks grant loans to businessmen



But these loans are always given for short periods. So capital for long term purposes cannot be obtained from banks. Moreover, the conditions according to which banks grant loans are often such that businessmen find it difficult to satisfy them. Some Indian businessmen also borrow from indigenous bankers. But the latter charge very high rates of interest, which are a great handicap to business. Some textile mills at Ahmedabad accept deposits from the public just like ordinary banks. This is not a desirable practice and should be given up.

So Indian businessmen have often found it difficult to raise sufficient capital. It has long been suggested that industrial banks should be established in our country for the grant of loans for long periods to industrial firms. Recently Government of India has established an Industrial Finance Corporation for this purpose. The share capital of this Corporation is Rs 10 crores, which has been subscribed by the Central Government, the Reserve Bank of India, joint stock banks and other financial institutions. It can sell debentures to the public and these debentures will be guaranteed by the government. Its main function will be to grant loans to industrial concerns, to be repaid by the latter during a period of not more than 20 years. It is hoped that this Corporation will meet the financial needs of Indian industries.

In the last two years two new institutions have been set up to assist the promotion and development of industries. The first has been established by the Government of India, and it has been called the National Industrial Development Corporation Ltd (NIDC). It has a paid up capital of Rs 1 crore subscribed by the

**Government of India** It can grant loans to any type of industrial concern, managed by either the government or private businessmen. But it is expected to give the first preference to industrial concerns manufacturing capital goods, machinery and equipment for other industries.

The second institution is called the Industrial Credit and Investment Corporation of India Ltd (ICIC). It has been sponsored by the World Bank and has an authorised capital of Rs 25 crores. Its shares have been subscribed by several Indian banks and Insurance companies, a number of British banks, insurance companies and other companies and by certain people and companies of the U.S.A. and to some extent by the public. The Government of India have granted to it an interest free loan of Rs 7.50 crores, which is to be paid back in 15 years. The World Bank has also agreed to grant it a loan of about Rs 5 crores. This Corporation will grant long term and medium term loans to industrial concerns in the private sector and help them in other ways.

A large number of States have also started State Finance Corporations, modelled to a large extent on the Industrial Finance Corporation, to grant financial assistance to the medium sized and small industrial concerns.

**Foreign Capital in India** One result of the small accumulation of capital in our country is that the majority of our industries have been developed by foreign capital. The supply of savings is small in our country. Moreover, many people who possess some capital do not like to invest their savings in the

Which industries  
employ foreign  
capital?

development of industries. Foreigners, especially the British people, have therefore stepped into the gap, and supplied the major portion of the capital employed in the tea and coffee industries, the paper industry, the coal mining and gold mining industries, the jute and rubber industries, the tin mines, etc. The major portion of funds employed in the cotton textile, sugar, and the iron and steel industries has been supplied by Indians.

**Advantages** The benefits of foreign capital are obvious. As we possess small capital resources it would not have been possible for us to develop our industries with our own capital. By supplying capital, foreigners have hastened the development of many industries of our country. We would have been poorer if these industries were not developed,—if railways, for example, have not been constructed. Secondly, the starting of new industries is always a risky affair. One never knows whether the company will earn good profits or will be involved in huge losses. If the enterprise fails, the persons who have invested capital will lose their money. All these risks of developing new industries have been borne by the foreign capitalists. Thirdly, the industry and the enterprise of the foreigners have set a lesson before the Indians. The latter have followed the footsteps of the foreigners and learnt from them the art of conducting a business successfully. The success achieved by the foreign capitalists has tempted the rich men of India to invest their funds in the development of industries. In this way, foreign capital has helped to draw out the idle savings from hoards.

It has hastened the growth of industries

It has borne the initial risks

It has trained Indians in business

**Demerits** But there are serious disadvantages on the other side. Our industries have, of course, been developed. But the profits from the working of these industries are not enjoyed by the Indians. These are sent out of the country and enrich the foreigner. The Indians have only benefitted by obtaining a few jobs as clerks and labourers. Secondly, the foreign capitalists have not always employed Indians to positions of trust and importance. All the higher posts are filled by their own countrymen. Indians have seldom been given any chance of learning the secrets of a business or of occupying high positions of responsibility. Thirdly, the foreign capitalists have also exploited our mineral resources with utter disregard of the future necessities of the country. They have mainly looked to their profits and tried to earn as much as possible. The coal mines, for example, have often been worked in wasteful ways. As a result, India has lost large quantities of coal. The foreigner cannot be expected to feel the same necessity as we do to conserve our resources. Lastly, the foreign capitalists have formed a vested interest and have always opposed the grant of independence to our country. They have opposed and have thwarted successfully the entry of Indians into an industry. The shipping industry is a case in point. The Indian shipping companies have not always been able to withstand the competition of well established foreign companies which possess huge resources and which have not hesitated to adopt unfair practices.

Foreigners take away all profits

Foreigners occupy all high posts

They exhaust our mineral resources

They oppose our political and industrial progress

The entry of foreign capital is, therefore, viewed with considerable distrust by the Indian opinion. The economists are agreed that the free entry of foreign capital should no longer be allowed, and that the foreign capitalist must be placed under certain limitations before he can be allowed to operate in India. Independent India of course requires the services of the foreign capitalists and technical men for manufacturing a variety of complex and complicated goods. But it does not mean that foreigners will be allowed to acquire control over industries.

In accordance with these aims, the government has stated its position with regard to the entry of foreign capital for the development of industries. The government has given an assurance that it would not adopt any discriminatory measure against any foreign concerns. In other words they would receive at the hands of the government the same treatment, and privileges as would be granted to similar Indian concerns. And if, in future, the government decides to nationalise them, it would pay fair and equitable compensation to the foreign owners of these concerns. In return, the government expected that the foreign concerns would grant at least 51 per cent share in the ownership and management and that they would provide adequate training facilities to Indians to enable to hold the higher technical posts in these concerns. Even these conditions may be waived at the request of the foreign concerns in cases where a rapid development of a particular industry becomes essential, and such development cannot be secured without the investment and technical knowledge of the foreigners.

**Rationalisation of industries** In recent years a good deal of talk is being heard with regard to the need

or the dangers of rationalisation of industry. What is meant by the rationalisation of industry ? It means the re organisation of an industry for the purpose of raising its efficiency, reducing the cost of production and increasing the output. So it generally involves scrapping of old, worn out machineries and installation of up to date plants and machines, and the amalgamation of uneconomic units into larger, and more efficient concerns. Waste in all forms is to be eliminated with the consequent reduction in the costs of production.

In India, the need for rationalisation has been felt from a long time in many of our industries. The jute mills and the cotton mills now operate with machines which are at least 30 to 40 years old, and many of those are in urgent need of repair and replacement. Pakistan is setting up a number of jute mills which are equipped with the most modern machines. We are exporting a large volume of cotton piece goods to other countries, and if we are to hold the market in these countries, we must take steps to reduce the cost of production of cloth as much as possible. Hence these and some other industries must be rationalised by the installation of modern machines, and all efforts are to be made to reduce the cost of production.

But rationalisation in these industries has roused great fears in the minds of workers. They are naturally afraid that it will lead to considerable unemployment. Modern machines are generally more automatic than old ones, and the installation of such up to date plants in the factories will inevitably cause unemployment. Rationalisation may lead to larger production and lower prices. But this is poor consolation to those workers who will be retrenched as a result. In fact, it has been stated that unemployment has already increased in a

large number of factories on account of the adoption of measures of rationalisation. The state in India does not pay doles to the unemployed nor is there much chance that they will be able to secure new jobs.

There is truth in both these points of view. While the need for rationalisation of industries is obvious, the dangers of resulting unemployment are no less serious. To prevent rationalisation is to stop the hands of progress and nobody including the workers is likely to benefit in the end from such a course. For, if our jute mills cannot produce at lower cost as they have very old machines, they will be driven out of the foreign markets by the competition of Pakistan with its modernised up to date factories. As a result, there will be unemployment in the jute industry in India. If such a state of affairs is to be avoided as it would involve the loss of national wealth, the jute mills have got to be rationalised and made up to date. You cannot just sleep on while your rivals are forging ahead. But importance should also be given to the point of view of the workers. The best policy should be to lay down a programme of gradual rationalisation so as to minimise the volume of unemployment. In the meantime the government and the industries concerned should lay their heads together and devise measures to absorb the unemployed workers in suitable jobs. It may even be necessary for the state to adopt schemes for the payment of unemployment benefit to the workers who will be thrown out of employment and for whom *alternative work cannot be found* within a short period of time.

**Large Industries in the Second Plan** In the first plan the main emphasis was laid on the development of agriculture and only the comparatively small sum of

Rs 57 crores was invested in the development of large and medium sized industries in the public sector. But the Second Plan proposes to devote greater attention to the development of these industries. The share of industry and mining in the total volume of investment will increase from 7.6 per cent in the First Plan to 18.5 per cent in the Second. In absolute amounts the total investment will increase from Rs 179 crores in the first to Rs 890 crores in the Second Plan. In addition, large sums are also to be spent in the development of these industries by the businessmen.

In the development of large and medium sized industries greater attention will be paid to the establishment of what are called the "heavy" industries, *i.e.*, industries which require large investment of capital per unit of output. Thus three steel plants will be established at Rourkela (Orissa), Bhilai (M.P.) and Durgapur (W. Bengal). In addition, the Tata, SCOB and the Mysore iron and steel factories are to be given adequate help to expand their output of iron and steel. In addition to the expansion of the iron and steel industry, a plan for developing the machine building industry, aluminium, basic chemicals like sulphuric acid, caustic soda, soda ash, fertilisers etc. has also been formed. Among the light and medium sized industries provisions have been made for the expansion of the existing D.D.T. plant, Hindustan Cables, the National Instruments Factory and the Indian Telephone Industries. A Second D.D.T. plant is established in Travancore Cochin. The U.P. Cement Factory, the Bihar Super phosphate Factory and the Paper Mill in Andhra are to be expanded and the Prager Tool Factory in Hyderabad is to be reorganised.



Some increase in the output of a number of consumer goods industries has also been planned. The output of paper and paper board is to be doubled and the production of sugar is to be increased from 1.65 million tons to at least 2.25 million tons. The output of vegetable oils is also to increase from 1.6 to 1.95 million tons. But in the main, the central idea is to allow no further investment in most of the consumer goods industries beyond that necessary to secure the maximum utilisation of their existing capacity. Some other industries like jute, cotton and sugar are to be helped in carrying out modernisation and re-equipment.

Thus it is quite clear that Second Plan has provided for intensive and many-sided industrial development. There is no doubt that the execution of this programme will go a long way towards giving the country a strong, well-balanced and rapidly developing industrial structure.

## CHAPTER 11

### LABOUR IN INDIA

The industrial development of a country depends to some extent on the efficiency of labour. Unless a country possesses adequate supplies of skilled labour, it will find it difficult to develop industries. The absence of adequate supplies of skilled labour is one of the handicaps which are being faced by the Indian industrialists.

**Efficiency of Indian Labour** How far are our labourers efficient? Unfortunately, Indian labourers do

not possess much efficiency. It has been estimated that one Indian worker is about one third as efficient as a Britisher. The reasons are obvious.

Indian workers are ill fed, ill clothed, and they live in dirty, and crowded bustees or chawls. Many of them do not get food in sufficient quantity. Their clothes are an insufficient protection against the changes of weather. The insanitary chawls in which they live an overcrowded life are so many breeding grounds of diseases. No wonder that they suffer from ill health.

**Climate** The climate of India is also an important factor. As we know, prolonged hard work in the excessively hot climate of India exercises an adverse influence over the health of the workers. The labourers are illiterate. They are inno-

cent of any education, general or technical. The number of technical schools where the worker can learn his work and get some knowledge of the machines is very small. Hence they lack both

They are ill fed  
ill clothed, ill  
housed

Lack of educa-  
tion, general and  
technical

sound health and good training, the two most important bases of efficiency. Because of their inefficiency, they get low wages. But such low wages are not sufficient to maintain their health and efficiency. They cannot afford to purchase good food, or clothes, or pay the rent of a decent house. There is thus a vicious circle,—low wages lead to low efficiency

Low wages and low standard of living

and the latter in its turn leads to low wages. As a result, their standard of living is very low, and a low standard

means low efficiency. Conditions of employment are also far from ideal. The employers do not always work with the best machines, nor have they done much to introduce some cheerfulness in the factories. The working conditions of the factories are far from the ideal. Provisions for proper ventilation and sanitation are often defective in most factories, which are also dirty. Though the Factory Acts have introduced some improvements in this regard, the conditions are not satisfactory. The working hours are also long, considering the extremely hot climate of our country.

Lastly, it must be pointed out that certain characteristic features of Indian factory labour are also responsible for its inefficiency. The workers are mainly recruited from the villages, and prefer to return to their homes as often as they can. This migratory habit of the workers results in inefficiency. The worker who goes to his village forgets what he has learnt about machines. He has no guarantee that he will get back the same job in the same factory. He has, therefore, to seek work in another capacity, or factory, where the machines may be different.

**Remedies** A high efficiency of labour is an indispensable condition of economic progress. A highly

efficient worker will produce a large output. He will also earn a large money income and will have a high standard of living. It is, therefore, necessary to take steps to increase the efficiency of our labourers. They must be given good food in sufficient quantities and better and cleaner clothes. The bustees and chawls should be demolished. The employers and the various local bodies should build better houses and sanitary quarters for the workers. Steps should be taken by the government and the local bodies to improve the public health of the country, and to provide better medical facilities. Above all, *the immediate necessity is to educate the workers*. For without education, it is idle to expect any lasting improvement in their health and efficiency. Technical schools should be opened in large numbers where the labourers can obtain all sorts of mechanical training. The Indian labourer is not less intelligent than a European or American worker. All that he lacks is proper training and the atmosphere to develop his talents. We have one important advantage over many countries. We possess abundant natural resources. If, with a determined will, we take steps to improve the efficiency of our workers, we have a glorious future before us.

**Mobility of labour** It means that the labourers can freely move from one place or trade to another in search of higher wages. When labour is perfectly mobile, it will go freely to any trade or any place where it can earn higher wages. If, for example, a group of labourers of Bengal find that they can get higher wages if they shift

to Bombay, they will at once move to Bombay. The supply of labour will increase in Bombay and fall in Bengal. As a result, the rates of wages will fall in Bombay and rise in Bengal. So long as the rates of wages are higher in Bombay than in Bengal, people will move from Bengal to Bombay until workers possessing equal efficiency get equal rates of wages. Hence perfect mobility of labour would lead to equalisation of wages for equal efficiency.

Labour is seldom perfectly mobile. It often happens that labourers do not know that they can earn higher wages if they go to Bombay. They may not know that there are better openings for their talents in other occupations than in those in which they are already working. Hence they will not leave their present occupations. Ignorance about the rates of wages to be earned elsewhere is thus an important factor hindering the free mobility of labour. But it is not the only factor. Even if the labourers know that they can earn higher wages at Bombay than in their native districts, they may not want to go to Bombay. As Adam Smith pointed out long ago, "man is, of all luggages, the most difficult to transport." People do not usually like to leave their homes and the association of their relatives. All these factors prevent the free mobility of labour.

In India there is an additional factor which prevents the mobility of labour. We already know the effects of the caste system. By decreeing that each man must take up the hereditary caste occupation, it has hindered the mobility of labour. A weaver's son cannot take up carpentry even if he knows that he can earn higher wages thereby. He must follow his caste.

Causes of immobility of labour

Special causes of immobility in India

organisation in the name of All India Trade Union Congress to guide and lead the movement. In 1926 the government passed the Trade Union Act which conferred many privilege upon the union. An union could be registered under the Act if it fulfilled certain conditions. No civil and criminal proceeding can be drawn against any union or its officials in respect of strikes. This Act placed the movement on a sound footing. The movement has achieved some success among the railway and postal employees. The Ahmedabad Textile Labour Union which worked under the inspiration of Mahatma Gandhi is one of the strongest and best unions in India.

**Difficulties of Trade Unions** The movement suffers from certain difficulties. The first difficulty is due to the poverty of the general body of workers. They get very low wages and cannot afford to pay even the smallest subscription. But no union can be run if the members do not pay any subscription. This is a serious difficulty. Another is the illiteracy of the workers. As the workers are illiterate they do not always appreciate the value of organisation. It is often difficult to convince them of the utility of trade unionism. A third difficulty is the diversity of races and languages among the workers. They come from many States and talk different languages. As a result they cannot mix freely with each other, and understand one another's feelings and ideas. This fact stands in the way of the development of a union. Moreover the provincial and religious jealousies prevailing among the workers are often exploited by the employer to weaken a particular union. There is another difficulty. Indian workers are migratory in character. They generally come from the villages and want to go back as often as they can. They do not look upon factory work as a permanent occupation.

Hence they do not always feel a strong urge to organise a union

The important characteristic of the trade unionism is that the union is led mostly by "outsiders", *i.e.*, non workers. They were originally formed by political leaders and social workers. And even now the majority of union leaders belong to this class. This is a defect of the trade union movement, and can only be remedied by the spread of education among the workers.

**Fixation of Minimum Wages** It is well known that until recently the average level of wages was extremely low in our country. Low wages mean low standard of living, inadequate food and clothing and no education. Hence the efficiency of labour was also low. This was thus a vicious circle—low wages, low efficiency, low efficiency, low wages. For this reason, Australia, New Zealand, Great Britain and a number of other countries have passed legislation for raising wage rates in the form of minimum wages. The general idea behind all this legislation is for the government to appoint boards or committees which calculate the minimum wages that should be paid to the workers. No worker is then to be paid wages below this minimum. Two broad principles are generally followed in fixing the minimum wages—such wages should provide what is called 'the living wage,' *i.e.*, a sum sufficient to enable the average worker and his family to maintain a reasonable standard of living. A second principle is that of what the industry can afford to pay. The actual minimum wage rates are generally fixed on the basis of a compromise between these and a number of other principles.

In India, the Industrial Disputes Act of 1947 provided for the setting up of Tribunals to decide the

disputes between the employers and the workers. As the vast majority of these disputes took place on the question of wages, these Tribunals had, therefore, to fix the minimum wage rates in the more important industries like cotton mills, jute mills, coal industry, etc., where the workers were more or less organised in trade unions. But there were also a number of industries where workers were unorganised. They could not form trade unions and so force the employers to pay them higher wages. So the government passed in 1948 the Minimum Wages Act for fixing the minimum wages for labour in these industries, e.g., rice milling, oil mills, tea, agriculture etc. One by one, different minimum wages have been fixed for different grades of labour employed in these industries.

The main idea behind the minimum wages legislation is that wages are to be fixed at levels which will enable the workers to maintain a reasonable standard of living. The workers are to be paid "living wages" which the industry can afford. Many other considerations are taken into account in fixing the level of minimum wages. It is expected that when minimum wages are fixed at reasonable levels, workers will be able to enjoy a higher standard of living. Their efficiency will improve in course of time. If workers produce more than before, employers will benefit in spite of the payment of higher wages.

But in fixing minimum wages, care should be taken to see that they are not fixed at very high levels. In that case employers will be forced to dismiss those workers who are not worth the higher wages. As a result, unemployment will increase in the country, and the workers will themselves lose and suffer. The level of



minimum wages must be within the capacity of the industry to pay

**Settlement of Disputes** It often happens that disputes may break out between the employer and the workers regarding the rates of wages, hours of work or other conditions of work. The workers may demand that their wages should be fixed at (say) Rs 100 per month, or that they would work for only 8 hours a day, or that they should be given annual leave for a month with full pay and so on. If the employer or employers do not agree to any of these demands, a dispute will break out, and the workers may go on a strike, or the employer may declare a lock out. A strike means that the workers refuse to go to work unless their demands are conceded. A lock out means that the employer shuts his factory and refuses to let the labourers work unless they accept his terms and conditions.

Strikes (or lock outs) give rise to a number of evils. In the first place, strikes mean that work in the factory is stopped, and so production becomes less than would be the case without strikes. As the national income of the country consists of the total volume of goods and services produced, less production means smaller national income, and the country becomes poorer as a result. If there is a prolonged strike in the cotton textile industry, the production of cotton cloth will fall off and the prices of cloth will rise to high levels. Everybody will suffer as a consumer. Secondly, there will be a good deal of distress among the workers when work in the factory is stopped. Most of them are poor and have small or no savings. So they suffer during the period of strike or lock out as they do not get any wages. Their sufferings increase as the strike becomes prolonged. Lastly, the whole community suffers when strikes take place in such

essential industries as railways, water supply, supply of water and gas, etc. The life of the community will be paralysed if railways stop running or if water supply is not coming as a result of strikes.

On account of these evil consequences of strikes or lock outs, efforts have been made in every country for the settlement of industrial disputes. In India, the number of strikes increased materially after the first world war, and since 1929 the government has been forced to take a number of steps for the settlement of strikes. The last legislation on the subject was passed in 1947. Under the Industrial Disputes Act of 1947, four different steps may be taken for the settlement of an industrial dispute. Firstly, works committees are to be set up in each factory with more than 100 workers. These committees are to consist of representatives of the employer and of the workers. The representatives of the workers are to be elected by them. The main function of these committees is to try to settle all matters likely to give rise to a dispute. Secondly, the government appointed a number of persons as conciliation officers. If there is a possibility that a strike or a lock out is likely to break out in a factory, these conciliation officers are expected to go to that place, meet both the parties, and attempt to induce them to arrive at a compromise. A third step is for the government to set up a Board of Conciliation for the settlement of a dispute. These Boards are to consist of an independent chairman and an equal number of representatives of the employer and the workers,—all appointed by the government. The representatives of both the parties are expected to meet and to try to settle the dispute by mutual agreement. Lastly, the government may appoint an industrial tribunal consisting of a person or persons possessing the

qualifications of a judge. This tribunal will hear the arguments of both sides and then issue an award for the settlement of the dispute. This award is binding upon both the parties, i.e., they must accept it for a period of one year.

**The Method of Compulsory Adjudication** A large number of tribunals have been set up since 1947 to settle industrial disputes. As the different tribunals gave different awards, which were often conflicting, the government also established a Labour Appellate Tribunal to hear appeals against the awards given by the tribunals.

When a dispute between the employer and the workers breaks out, or is threatened, both the parties may appeal to the government to set up a tribunal. The government may also set up a tribunal on its own initiative if it thinks that this will lead to a quick settlement of the dispute. Once a dispute is referred to a tribunal it is illegal to declare a strike or a lock out. The award of the tribunal, when issued, is binding upon both the parties and a strike or a lock out relating to the points included in the awards is also illegal. Hence this method is known as compulsory adjudication.

The method of compulsory adjudication has important defects. It leads to an increase in the number of disputes. The workers know that they can harass the employer by raising a dispute and so forcing the government to set up a tribunal. Moreover, as each party knows that the dispute may be referred to a tribunal, it does not feel any necessity to come to a compromise with the other party. The spirit of give and take which makes for good industrial relations is thus lost. Hence a large number of individuals have come to the conclusion that the method of compulsory adjudication

(i.e., the settlement of disputes by tribunals) is not good for this country, and in its place more and more reliance should be placed on the settlement of all disputes by means of mutual negotiation of the employers and the trade unions.

The best way to solve a quarrel is not to create a situation in which a quarrel becomes necessary. The next best thing is for the parties to the quarrel to meet and settle it among themselves. Sometimes the help of a third party in which both the contestants have confidence may be useful in inducing a spirit of moderation and suggesting a compromise. But the best settlement is always one that is reached by the mutual agreement of both the parties given freely. Such a settlement is more likely to be honoured and carried out in practice than one which is imposed from above by a tribunal. When an award is given by a tribunal it generally pleases nobody, and the party which considers the award to be against its interest will seek every means to avoid carrying out the terms of the award. Hence this method will not bring about industrial peace.

The method of settlement of a dispute by the mutual agreement of both the parties is certainly desirable. But its success depends upon the extent to which both the parties feel the urge to come to a compromise rather than face a strike or a lock out. If employers refuse to recognise or negotiate with the trade unions or other representatives of the workers on equal terms there can be no compromise or no settlement of disputes. Under such circumstances the method of compulsory adjudication becomes unavoidable.

**Sickness Insurance** Sickness is one of the greatest problems that an average individual has to face. During sickness a person has to incur large expenses in

medical treatment and in buying special food. At the same time unless his employer gives him leave on full pay, his income will be reduced. This is specially the case with industrial workers, most of whom receive such low wages that they cannot save anything for meeting the additional expenses of sickness. In the majority of cases their income ceases altogether or is reduced to half as very few employers grant leave on full pay on such occasions. The case becomes worse when the sickness is a prolonged one.

Many other countries adopted the method of sickness insurance to provide medical treatment and financial aid to sick workers. In an ordinary life insurance, though the risk of untimely death is a serious prospect for every person, the number of individuals in a community who may die at different ages may be fairly calculated. On the basis of such expected mortality rates experts can calculate the total liability that an insurance company will have to face on account of the death of the insured persons and premia may be fixed accordingly. Exactly a similar principle is followed in connection with the scheme for sickness insurance. If we possess good data about the incidence of sickness of various types in a community we are in a position to calculate the total cost of providing medical treatment for all such sick persons. This total cost may be distributed in any manner among the different parties. Thus under the scheme adopted in this country, the workers, employers and the state are to share the expenses of such medical treatment in certain agreed proportions.

Though proposals for sickness insurance for workers were made during the last war, the government passed an Act, called the *Employees State Insurance Act*, in

1948 Under this Act, industrial workers in all factories in different regions will be insured against sickness, accident and maternity (in the case of women workers) and disability. The workers will have to pay small sums of money every month, as premium, varying from 2 as in case of those workers whose daily wages lie between Re 1 to Rs 1|8| to Rs 1|4| for those earning Rs 8 or more per day. Workers whose daily wages are less than Re 1| would not have to pay anything. Employers will generally pay at double rates for each worker employed by them. The governments will also pay some contributions. In return for this payment, workers will receive free medical treatment during sickness, and cash payment at half their wage rates. Women workers will receive similar facilities. In addition, they will also receive free medical treatment and cash payments at 12 as per day for a period of 12 weeks before and after her confinement. If a worker receives some injury in course of his duty which disables him partially or totally, he will also receive cash payments. If he dies as a result of an accident in course of work, his dependents including his widow and children will be paid cash payments at certain rates during their life, or marriage or till the age of 15 as the case may be.

The government has set up an organisation known as the Employees State Insurance Corporation, which receives these funds and will be in charge of the administration of medical benefits and cash payments. A large number of medical practitioners are being appointed in the factory areas to work the scheme.

The benefits of this scheme are obvious. Workers will receive medical treatment and their health and efficiency are expected to improve. The labour force in

the factories will be stable, as anyone who leaves for the villages will not receive all these benefits

**Other Labour Legislation and welfare** We have discussed some legislation which has been passed to protect the rights and interest of the workers. The Trade Union Act provides legal recognition to the trade unions and has given them some rights. The Industrial Disputes Act has sought to provide a machinery for the settlement of disputes between the employers and the workers. The Employees State Insurance Act is an important labour welfare measure which seeks to provide some relief in various forms to those workers who are sick or injured.

In addition to these, a number of other measures have also been passed to protect the interest of labour as also to provide them with some benefits. Thus the *Factory Act* includes a number of important measures for the benefit of the workers. It prohibits the employment in factories of children below 14 years. The hours of work have been fixed at 8 hours a day and 48 hours a week for adults and only 4½ hours per day for children between the ages, 15 to 16. Besides weekly holidays, every worker must be given leave on full pay after a year's service at the rate of one day for every 20 days of work. The employers must make provisions for canteens, crèches, drinking water etc., in their factories. The *Payment of Wages Act* lays it down that wages must be paid within seven days from the date of expiry of the month. It laid down the grounds on which fines could be imposed on workers, which could not exceed half an anna in the rupee and the amount so realised must be spent for purposes beneficial to workers. Special laws have also been passed for the coal mining labour,

labour employed in tea plantation and other plantations and others

The term, labour welfare, includes the measures adopted for the welfare of the workers such as facilities for rest and recreation, housing, medical and educational facilities etc. The government at first, passed the Coal Mines Labour Welfare Fund Act. This Act provided for the levy of a small cess on coal and the proceeds of the cess are to be utilised for constructing houses and providing other amenities for the workers in coal mines. The Government is considering the passage of another Act to be applicable to workers in all industries. Many enlightened employers have already adopted a number of measures for providing amenities for the workers.

Mention should be made of the Employees Provident Fund Act passed in the year 1952. The wages earned by the average workers are so low that very few of them can save anything for their old age. In England and other Western countries, the state grants old age pensions to all persons above a certain age (60 or 65). But no such provision exists in our country. A few factories and business concerns generally pay retiring gratuities and even pensions to their employees who have worked for a certain number of years. This was entirely voluntary and inadequate. Under the Provident Fund Act, which has been applied only to a few industries, the provident funds are to be instituted for all workers engaged in these industries. The workers will contribute to the Fund at the rate of  $6\frac{1}{4}$  per cent of their wages, and an equal sum is also to be contributed by the employers. The money thus realised was to be invested in government securities, and the amount accumulated



to the credit of the workers would be paid to them after their retirement. Thus some provision has been made for the old age of these groups of workers.

But this is far from a definite scheme of social security. Workers have no security against unemployment and other risks of life.

## CHAPTER 12

### GOVERNMENT'S INDUSTRIAL POLICY

It is now being increasingly recognised that the government of a country should encourage and help the development of industries. The policy of *laissez faire* has practically ended. Germany and Japan developed their industries quickly because of the active help given by their governments.

But unfortunately the Government of India did not follow this policy throughout the 19th century and the first part of the twentieth century. They did practically nothing to encourage the development of industries in India. In the beginning of the 20th century, one or two Provincial governments, especially that of Madras, adopted the policy of granting loans to some industries and themselves started one or two factories. This was opposed by the Europeans and as a result of their opposition, the Secretary of State disapproved of this policy. During the first world war, the government realised the necessity of developing industries of India. They set up a *Munition Board* to purchase the essential needs of the war from India, and thus indirectly encourage the manufacture of goods in India. In 1916 the government appointed an *Industrial Commission* to examine the question of the part to be played by the government in the industrial development of the country. The Commission recommended that the government should take active steps for developing industries. It should conduct research, undertake a survey of the possibilities of different industries in India, provide commercial information and open technical schools and

colleges, and patronise Indian goods. These recommendations were accepted by the government and it created the *Indian Stores Department*, whose main duty was to buy goods required by the government as far as possible from the Indian industries. The Provincial governments started a *Department of Industries* under the charge of a Minister. This department conducted surveys of industries in the Province, and gave advice and information to all persons who wanted to set up industries. Some Provincial governments passed *State Aid to Industries Acts*, under which the government was authorised to advance loans to industrial concerns. Some funds have been invested in these loans. But not much has been achieved by this method.

In 1922 the government appointed a Fiscal Commission which recommended the adoption of the policy of *discriminating protection*. Under this policy protection was to be granted to those industries that possessed ample natural resources and gave promise of development in the future, protection was granted to a number of industries like the iron and steel industry, the cotton textile industry, sugar industry, match industry, etc.

During the second world war the government took more active steps for the development of industries. It set up a *Board for Scientific and Industrial Research* to carry on research in industrial matters. It promised to carry out suitable modification of the policy of discriminating protection especially in the interest of industries established during the war.

With the achievement of independence, the national government began to take active steps for the development of industries. A new Fiscal Commission was set

up and on its recommendations, suitable changes in the policy of protection have been adopted. The government issued a *statement on Industrial policy*, laying down the policy of the government on the industrial development of the country.

**Protection and India.** Indian opinion is consistently protectionist. The theoretical free trader hardly exists in India. In every country except England, it was found necessary that the state should encourage the growth of industries by protecting them from foreign competition. Even in England, the infant industries were granted protection in the early days of industrial revolution. At the present moment, she has again found it necessary to grant protection to her industries in order to save them from the effects of the trade depression of 1929. The case for protection is very strong in India. She is now predominantly an agricultural country. But she possesses large resources for the development of industries. The strongest argument in favour of protection is the infant industries' argument.

The *infant industries' argument* is of special application to India. India is very rich in raw materials and has immense possibilities of developing her industries, some of which have just been established. These are often unable to withstand the competition of the highly organised industries of the western countries and Japan. Hence it is desirable to protect the infant industries of India against foreign competition. All the arguments in favour of granting protection to infant industries are applicable to the fullest extent to India.

Secondly, the policy of protection is advocated on another ground. India is mainly an agricultural country

Too much dependence on one industry is highly undesirable. Agricultural income is uncertain as it depends on the monsoons. The development of industries is, therefore, urgently necessary in order to remedy this excessive dependence on agriculture. Such an all round growth of various types of industries will make possible the development of all types of faculties of the people. Diversification of industries will lead to the diversification of talents. The total incomes of the people will increase. It is recognised on all hands that unless India is industrialised, her people will remain poor. The development of industries is not possible unless these are granted protection against the competition of well established foreign industries.

**Discriminating Protection** The question of the grant of protection to Indian industries was examined in 1922 by the Indian Fiscal Commission, appointed by the Government of India. The members of the Commission were in favour of adopting the policy of granting protection to our industries. But as protection imposes heavy burden on the consumers who are already poor, the Commission did not recommend that protection should be granted indiscriminately to all industries. They advocated what was known as the policy of *discriminating protection*. Care is to be taken to select the right industries which show possibilities of development. The Commission laid down three conditions which should be satisfied before an industry was granted protection.

(1) 'The industry must be one possessing natural advantages, such as an abundant supply of raw materials,

cheap power, a sufficient supply of labour and a large home market ”

(ii) “The industry must be one which, without the help of protection, is not likely to develop as rapidly as is desirable in the interests of the country ”

(iii) “The industry must be one which will eventually  
Tariff Board be able to face world competition  
without protection ”

If any industry satisfied these conditions, it should be granted protection by the government. Before an industry is granted protection, an enquiry should be held by a special Board to examine whether it satisfied all the three conditions. The Board is to be called the *Indian Tariff Board*. It would consist of three members to be appointed by the government. The members should be experts. The Board should examine the case of each industry which applied for protection. If it was satisfied that the industry required protection, it should recommend suitable measures to the government.

Many industries have since been granted protection. The first to receive protection was the Iron and Steel industry. This industry is now fully developed, and is in a position to face world competition. The Paper industry, the Match industry, the Cotton Textile industry, the Sugar industry have all been granted protection. The development of the Sugar industry has been phenomenal. Within 10 years from the grant of protection, the industry is now in a position to meet the home demand for sugar.

In recent times, many economists have criticised this policy as being inadequate and unsatisfactory. In their

opinion, the government should adopt a bolder policy of protection for the development of the essential industries of the country. It is extremely difficult for any industry to satisfy all the three conditions. Hence it is essential to liberalise these conditions in the future.

**The New Fiscal Policy** The policy of discriminating protection was strongly criticised by many Indian economists. In answer to these criticisms, the Government of India appointed a Fiscal Commission in 1949, which submitted new proposals for the grant of protection to industries.

In the opinion of the Commission, the grant of protection should be related to the framing of an over all economic plan for the resources of the country. In other words, protection is to be regarded as one of the means for the development of industries considered important under the economic plan. It suggested that in general, industries should be classified into three groups, *viz*, (1) defence and other strategic industries, (2) basic and key industries, and (3) other industries. The first group of industries should be granted protection on national considerations, whatever its costs may be. The second group of industries are also to be granted protection subject to the terms and conditions laid down by the Tariff Board. In the case of the other industries, protection should be granted, provided that the industries satisfied the undermentioned conditions, *viz*,—

(a) judged by its economic advantages and its actual or probable cost of production, there is a good possibility of its development within a reasonable period of time when it will be able to stand without protection or assistance, and/or,

(b) it is an industry to which it is desirable in the national interest to grant protection, provided that the probable cost of such protection to the community is not excessive

These conditions are quite reasonable and liberal

**Imperial Preference** This policy has been adopted in recent time. According to this policy, the Government of India levies lower rates of import duties on British goods and on goods sent by the empire countries, and higher rates on goods sent by other countries. In return, the British government and other countries of the British empire will also grant similar preference to Indian goods. The purpose of this policy is to encourage the growth of trade and industries of the British empire.

This policy is opposed by Indian opinion. India is not likely to gain much by adopting such a policy. But in spite of this opposition, the government formally adopted this policy at the time of the *Ottawa agreement* in 1932. According to this agreement, the Government of India agreed to follow the policy of imperial preference. They decided to levy lower rates of import duties on British goods and higher rates on non empire goods. The British government also agreed to levy lower duties on Indian goods. This agreement was denounced by the Indian Legislative Assembly. Later it was replaced by the *Indo British Trade Agreement*. According to it, a large number of British goods was granted preference in Indian markets in return for similar preference granted by Great Britain to Indian goods.

**Industries (Development and Regulation) Act of 1951** In a planned economy, it is necessary that the development of industries should proceed along planned directions. But industrial development is left to private



enterprise, the government must have the power to ensure that everything proceeds according to the schemes laid down in the plan. For this purpose the Parliament passed the Industries (Development and Control) Act. Under this act, all factories, existing or new, will have to take a license from the government. Persons who want to set up new factories will have first to apply for a license. The government may refuse to grant the license for industries whose development has not been included in the Plan, or whose further development is not desired. It may also determine the places at which such factories are to be located. If any factory is found by the government to act in a manner prejudicial to the national interests, or to the interests of the consumers, the government may issue appropriate directions to the owner. If the owner fails to comply with such directions, the government may ultimately take over the management of the concern for a certain period, after which it will again be handed over to the previous owner. The Act also provides for the establishment of a number of Development Boards for different industries for the purpose of fostering their development through research and the provision of other facilities.

**The new industrial policy** The first statement on the industrial policy of the government was issued in April, 1948. Recently in April, 1956, the government has issued another statement on this subject. According to this new statement, the different industries are to be classified into three categories. In the first category will belong those industries like arms and ammunitions, railways, iron and steel, etc., in which all new enterprises are henceforth to be established by the state. The existing concerns belonging to this category will, however, be allowed to remain in private hands, and if

necessary, they may even be allowed to expand their scale of production. For this purpose the government is prepared to provide them with the necessary financial and other types of help. In the second category will belong those industries like aluminium, machine tools, dye industry, fertilisers, synthetic rubber, road transport, sea transport etc., where new units are to be established both by the state and the private enterprise, with or without the participation of the state. All other industries will be left entirely to the private enterprise for development.

Thus private enterprise has been left a comparatively large field to operate. The economy will thus be of a mixed type in which both state owned enterprises and the private business units will work side by side in many lines of production, let us hope, to the mutual benefit of both the parties.

## CHAPTER 13

### SYSTEMS OF TRANSPORT

The efficiency of the productive organisation of a country depends to a large extent on the means of communication. This is true specially in India which is a country of long distances. Without adequate transport facilities, it is not possible to transfer goods and passengers within and from the country. It is necessary, therefore, to examine how far we possess modern methods of transport by rail, road and sea.

**Railways** The Indian railways were started in 1844 when the East India Company gave sanction for construction of the E I Ry, G I P Ry, and the Madras Ry. Lord Dalhousie, who was the Viceroy of India, submitted a despatch in 1853 advocating the construction of railways in India. By the end of 1859, the government entered into contracts with 8 British companies for the construction of railways in India. The British companies were reluctant to start operations in India. India was then an undeveloped country, and it was doubtful whether there would be sufficient traffic to enable the companies to earn profit. So the government gave a financial guarantee that if they failed to earn profits at the rate of  $4\frac{1}{2}$  to 5 per cent, it would pay the deficit. When the companies earned profits at a higher rate, half the excess should be paid to the government. The government supplied land free of cost to the companies. It also reserved the right to control and supervise the railways and to purchase them at the end of 25 years. This system is known as the *Guarantee system*.

This involved the government in huge losses. The railways did not earn sufficient profits to meet the guaranteed interest. And the government had to make up the deficit from the general revenues. So the government decided afterwards to construct railways from their own funds. There began a second period in the history of railway construction, during which the State owned and managed some of the railways. But this was again abandoned on account of the absence of funds. New contracts were made with the railway companies guaranteeing interest at a lower rate (usually  $3\frac{1}{2}$  p.c.) Arrangements more favourable to the government were made regarding the distribution of profits. This system is known as the *New Guarantee system*. The railways began to earn good profits from the beginning of the 20th century. After the first world war, the government decided on the policy of state management of railways. One by one almost all the important railways have been acquired by the government, and they are all under the government management. During the last war, the government has succeeded in paying off all the railway debts. The Indian tax payer is now the full owner of the railway system of the country.

**Effects of Railways** Originally the railways were constructed to facilitate British trade with India. But whatever the initial impulse, these have exercised a far reaching influence on the economic life of India. The immediate effect was not always beneficial. The rapid construction of railways made it possible for the British manufacturers to send their machine made goods to the remotest corner of India. These goods were cheaper in price, and our old cottage industries were unable to compete with

them So they succumbed one by one The railways have, therefore, been an important cause of the decline of our cottage industries This has effected our villages and our agricultural system

The artisans were thrown out of employment as a result of the decay of their industries So they had no other alternative but to take to agriculture as the means of their livelihood The pressure of population on agriculture increased, and the land was subdivided into small plots to meet the demand of the growing agricultural population We know that such subdivision is an important cause of the backwardness of agriculture Secondly, the railways

They obstruct the natural drainage have exercised adverse effects on the village life in another way The railway bridges obstructed the natural flow of the rivers Many experts are of

opinion that this is one of the important causes of the frequent floods which occur in the rivers The high railway embankments have also obstructed the natural drainage of the country Many places

The health of the people has suffered have been water logged as a result, and have become breeding grounds for malarial mosquitoes As a consequence, the health of the country side has deteriorated, and the village people are suffering from malaria

All this is, no doubt, bad But the railways have also conferred immense benefits on the people We have

Advantages seen just now that the railways have affected our agriculture in an adverse way But they have also exercised a beneficial influence They have linked the villages with the distant markets of the world The market for

agricultural products has become world wide. In old days, the cultivators raised sufficient crops to meet their needs, and some thing extra to sell in the village markets. This system of cultivation is known as "subsistence farming". But now a days cultivation is no longer carried on to satisfy the needs of the villages or the surrounding places, but for the purpose of sale in the world markets. The cultivators can now get a better price for their crops with the widening of their markets. The railways have also favoured the cultivation of many crops like jute, cotton etc., by making it possible to export these to the world markets. Agriculture has become commercialised. The villages and the organisation of agriculture have now been linked with the world, and no longer possess a self sufficient economy. They have to share the joys and sorrows of the world outside. The American civil war stopped the American exports of raw cotton to Lancashire, and the British merchants sought therefore to purchase raw cotton from India. The Indian cotton growers enjoyed a brief spell of prosperity. When France was defeated by the victorious Nazi hordes, the South Indian cultivators of ground nut lost their biggest market, and suffered as a consequence.

The village people have gained in another way. The railways provide protection against the ravages of famines. If crops fail in any part of India, the people will not have to starve. Food can be easily brought to those places from other parts of the country.

Similarly, with regard to industries, the railways have not been an unmixed evil. Though some cottage

industries have declined, other industries have sprung up as the result of the improved means of communication. The growth of large scale industries would not have been possible without the railways. The latter bring coal, oil and the raw materials to the industries at a cheap rate, and distribute their finished goods among the different parts of the country. Without railways, the tea plantations of Assam and W Bengal, the jute industries, etc., would not be able to obtain labourers in sufficient numbers. The modern industries are dependent on the railways in such a way that the growth of industries without railways is unthinkable.

The railways have increased the volume of our exports and imports. Crops from all parts of the country are sent via the railways to the ports and the world markets in larger volumes than before. Hence our foreign trade has increased in volume. The railways also yield a decent sum of revenue to the Government of India, and have increased the wealth of the country in many other ways.

The railways have broken down the isolation of the Indian villages. People now move freely, and migrate from place to place. Free mixing with other people is enlarging their vision, and makes them aspire for a better life. It is breaking down their conservatism and caste prejudices. In this way the railways have been an

important factor in moulding the diverse population of India into one nation

**Extent of Railways** In spite of such railway development, the position in our country is not at all satisfactory. We have over 35,000 miles of railways. The government has invested about Rs 960 crores in railways. But this is inadequate to satisfy the present needs of India. America has got about 250,000 miles of railways. We possess about 20 miles of railway lines for every 1,000 square miles. But England and Germany possess about 195 miles of railways for the same area. We require at least 100,000 miles of railways. There is thus a vast scope for the construction of railways in our country. It is gratifying to learn that the government proposes to spend more than nine hundred crores of rupees on railways within the next five years under the Second Plan.

**Roads** These are the next important form of transport. Good roads will link the villages with the big towns and ports, and will thus make it easy for the cultivators to send their produce to the big markets. The progress of agriculture, therefore, depends on the existence of good roads. The development of motor traffic has increased the necessity of good roads. Transport by cars and lorries is quick and efficient, and can serve the interior villages in a better way than the railways. But most of these places do not possess motorable roads. So it is necessary to build more roads. The government is slowly awakening to this necessity. It has levied higher duties on petrol in order to have funds for the development of roads. The proceeds of these duties are made over to the State.

Importance  
of roads



Road Boards whose duty is to construct new roads and to maintain the old ones But the progress is very slow

**Shipping** Ships constitute an important form of transport India was once famous for her ship building

Her vessels sailed over the distant seas and carried trade with many countries But with the advent of the British raj this industry has declined India is now dependent on foreign countries for shipping her goods Several shipping companies (*e.g.*, the Scindia Steam Navigation Co.,) have been started But these are confined more or less to the coastal trade India's share in the overseas trade is practically insignificant Until recently, there was no suitable ship building yard for large ships One has been started at Vishakhapatnam several years back, and we can expect some progress in this direction

The necessity for an Indian mercantile marine is obvious No first class nation can make progress without her own ships India possesses large natural facilities for ship building With her own ships, she will be able to save large sums of money which are paid every year to foreign shipping companies for freight and passengers This will open new avenues of employment for her people A mercantile marine is indispensable during periods of war The government should give up its present policy and render active help for the construction of ships and the training of Indians in seamanship The coastal traffic has been reserved for Indian shipping

The Second Plan includes a number of provisions for the expansion of shipping At the beginning of the

First Plan we had a tonnage of 3,90,707 G R T. It was proposed to increase the tonnage to 6,00,000 G R T and this was likely to be achieved in practice. The Second Plan provides for a further increase in tonnage to about 9,00,000 G R T and it is expected that as a result of this increase, we would be able to raise India's share in the overseas trade to 15 per cent. To achieve this target, the Hindusthan shipyard at Visakhapatnam is to be expanded so as to provide for the construction of at least four ships per year. In addition, provisions are being made for developing and improving the ports and harbours. At the time of partition India had only five major ports. During the first plan period, another major port at Kandla has been constructed. During the Second Plan, while no new major port was to be constructed, the existing major ports were to be modernised and expanded by about 30 per cent.

**Air Transport** This form of transport has been developed after the second world war. By 1951 Indian airlines operated about 27 internal services and a small number of external services. In 1953 air transport has been nationalised and since then the government has set up two airlines corporations,—one to operate the internal air lines and the other the international lines. The Air India International now runs air services linking India with 15 other countries. There are about 75 aerodromes and provisions have been made for the construction of a number of aerodromes during the Second Plan.

## CHAPTER 14

### INDIA'S FOREIGN TRADE

India conducts a large volume of trade with foreign countries. In 1955-56 the total value of imports and exports (including re-exports) from India amounted to Rs 747.7 crores and 642.2 crores respectively. Thus the balance of trade was unfavourable to the extent of Rs 105.5 crores (including private treasure).

In the five years from 1951-52, the balance of trade has remained unfavourable in all years. In pre-independent India, our country had usually a favourable balance of trade. What are the reasons for this change in the most important characteristics of our foreign trade? In other words, why has the balance of trade become unfavourable in recent years?

The main reason is the fact that India has now to import large quantities of food from foreign countries. Before the last war we imported only small quantities of food grains from abroad. But the quantity of imports of food grains has increased materially on account of the fact that our internal production is insufficient for the needs of our growing population. In 1951-52 we imported food grains, pulses and flour worth Rs 224.1 crores, and in the same year our adverse balance of trade amounted to Rs 312.88 crores.

A second reason is the partition of the country and its consequences. Before the partition, India used to export large quantities of jute goods, raw cotton and

hides and skins After the partition, the main jute and cotton growing areas have become a part of Pakistan As a consequence, India not only ceased to export raw jute and raw cotton but she had to import these two commodities from Pakistan and other countries While our exports declined, our imports increased In 1951-52, we imported raw cotton of the value of Rs 136.4 crores Similarly, we had to import large quantities of raw jute from Pakistan, while our exports of raw jute had become negligible

A third reason was the existence of strong inflationary pressure in the country The high prices *ruling in the country* have raised the cost of production of our exports A country, where prices and costs are high, provides a good market in which to sell and a bad market in which to buy Hence our exports declined and imports increased

Lastly, the operation of the Five Year Plan would also involve a deficit in the balance of payments The course of development proposed in the Plan cannot be carried out until large imports of machinery are brought from other countries, while exports cannot be increased within a short time Hence the working of the Second Five Year Plan is expected to cause a deficit in the balance of payment to the extent of Rs 1100 crores in the next five years

**Features of Foreign Trade** One important characteristic is the emergence of an adverse balance of trade in the foreign trade In the five years, 1947-52, the balance of trade became favourable only in one year Previous to 1947, the balance of trade was usually favourable to India, and became unfavourable only in exceptional years This favourable balance of trade

was due to the fact that India was a debtor country, and had borrowed large sums of money from England. So she had to pay large sums of money to England on account of interest and principal. Secondly, India had also to pay large sums of money to England to meet "the home charges," i.e. certain expenses incurred by the Secretary of State and his office, etc. Lastly, India had to pay for the services of foreign shipping companies, banking and Insurance companies which she utilised.

Some of these factors have changed in recent years, while new factors have been at work. During the second world war, India succeeded in repaying most of her sterling debts, and since independence she had not to pay anything for the home charges. Among the new factors, mention must be made of the large food imports, large imports of some raw materials like raw cotton, raw jute etc., due to the partition of the country, and the inflation of prices. As a result of the working of these new factors, the balance of trade has become unfavourable.

There was another peculiar feature of our foreign trade. In the 18th century our exports consisted mostly of goods manufactured in our cottage industries. But with the decline of these industries, we began to export large quantities of raw materials like jute, cotton and food crops like rice, etc. Our imports consisted mainly of manufactured goods. This tendency continued till the beginning of the last war. But a slight change in this tendency has become evident during the last war. The percentage of manufactured goods is increasing in our exports. We export sending more manufactured goods and less raw

Preponderance  
of raw materials  
in exports

materials and food stuffs, and bringing more of the latter from foreign countries

Our trade with Great Britain and the British Empire countries forms a large part of the total foreign trade of the country. Our trade with America has also increased considerably. Before the last war, the major portion (55 per cent) of our trade was conducted with British Empire. Great Britain occupies a dominant position in our foreign trade. She sends the largest volume of goods for any country, and also occupies the first place among the foreign buyers of our goods.

Though we conduct a large volume of trade, this is not much when we pay attention to our population and resources. As compared to England or the U.S.A., our foreign trade per head is very small. This is due to the fact that ours is a poor country and our resources are as yet undeveloped. Another sad characteristic is that the major portion of our foreign trade is conducted by foreigners. The majority of importers and exporters are foreigners, and our goods are carried in foreign ships.

**Chief Articles of Export and Import** Among goods that are exported, mention may be made of the following articles, *viz.*, jute, cotton, tea, food grains and flour, oilseeds, hides and skins, lac, wool, tobacco, mica, rubber, coir, fruits and vegetables, hemp, spices, coffee, silk, etc.

**Exports** *Jute* is exported mainly in the form of jute manufactures like gunny bags, hessian, etc. The chief buyers of jute are England, America, Australia, Burma, other British Empire countries, Japan, France, Germany, Brazil, Argentina etc. In 1954-55 jute manu-

factures worth Rs 123.9 crores was exported, forming about 22 per cent of the total value of

**Cotton** our exports *Cotton* is also exported in the form of raw cotton and cotton

manufactures. The important purchasers of raw cotton

were Japan, England, China, France, America, etc.

Cotton manufactures are sent to Burma, Ceylon,

Straits Settlements, Egypt, Iran, Iraq, etc. In 1954-55,

cotton manufactures worth Rs 64.05 crores was exported,

forming 11 p.c. of the exports. *Tea* is

**Tea** exported mainly to England which

takes about 90 p.c. of the exports.

Next come Canada, Burma, America, Iran, etc. India

exports nearly 75 p.c. of her total production of tea.

In 1954-55 India exported tea worth

**Food grains** Rs 146.5 crores forming nearly 25 p.c.

of the value of exports. *Food grains*

consist of rice, wheat, pulse, barley, jowar and bajra, etc.

These are bought by Ceylon, Arabia, Iraq, Iran, England,

Germany, etc. *Oil-seeds* consist of

**Oil seeds** linseed (exported to England, France,

Australia, Germany, etc.) rapeseed

(exported to England, France, Belgium, etc.), groundnut

exported to France, England, Netherlands, Germany,

etc.), castor seed (sent to England, America, etc.), Sesamum,

etc. In 1954-55 oil seeds worth

**Hides and skins** Rs 4.02 crores were exported. *Hides*

*and skins* are exported both in the raw

and tanned form, chiefly to England, America, Italy,

Germany, etc. In 1954-55 these exports amounted to

Rs 26.15 crores. *Lac* is sent to America, England,

Germany, etc. Exports amounted to Rs 116 crores. In

addition, India exported metallic ores and scrap iron

worth Rs 11.56 crores in 1954-55.

**Imports** These consist of cotton and cotton goods, machinery and mill work, silk, wool, paper and paste board, hardware, dyes, drugs and medicines, instruments and apparatus, glassware, tobacco, spices, provisions, liquors, wood, timber, grain, pulse, flour, etc

Both *raw cotton and cotton manufactures* are imported by India. The former consists of fine cotton of long stapled variety and is imported from British East Africa, Egypt and America. The manufactured goods

(e.g., cotton yarn, piece goods, etc.), are imported from England, Japan, China, Switzerland, Holland, Belgium, Italy, etc. In 1954-55, the value of

Wool imports of raw cotton was Rs 58.45 crores and of cotton manufactures was

2.2 crores, forming 15.9 p.c. of the total value of imports.

Both *raw wool and manufactured woollen goods* of the value of Rs 11.71 crores were imported in 1954-55. These

were bought from England, Japan, Italy, Germany, France, etc. Both raw silk and manufactured silk goods (yarn

and piece goods) are imported from China, Japan, England, Italy, etc. India also imports large quantities of *artificial silk goods* (worth Rs 14.0 crores in 1954-55)

from Japan, Italy, England, etc. *Machinery and mill work* include various kinds of electrical, agricul-

tural, sugar or tea machineries and parts, etc. The value of these goods imported in 1954-55 was Rs 83.26 crores. England, America, Germany, Belgium were the principal countries which supplied them. India also



imported *instruments and apparatus* (worth Rs 10 35 crores in 1951 52) from England, Instruments, Hardware, America, Japan, etc *Hardware* of the Drugs and medicines value of 17 76 crores was imported from England, America, Japan, China, Germany, etc *Drugs and medicines* were brought from England, Germany, America, Japan, etc *Paper and pasteboard* worth Rs 13 67 crores were imported from Canada, America, Norway, Sweden, Japan, etc

### Trade with different countries

*England* sends cotton goods, machinery and mill-work, drugs and medicines, hardware, provisions, dyeing and tanning substances, paper and pasteboard, rubber manufactures, tobacco, etc, to India. She takes raw jute and jute manufactures, hides and skins, raw cotton, linseed, ground nut and other oilseeds, tea, wool, (raw and manufactured), tobacco, coffee, lac, raw rubber, coir manufactures, etc. She is our best customer in raw jute, jute bags, tea, linseed, hides and skins, etc

*Burma* sent rice, oil, teak wood and bought cotton and jute manufactures, iron and steel, tea, sugar, coal, etc. She was our best customer in coal and cotton piece goods

*Japan* exported cotton manufactures, silk manufactures, artificial silk, woollens, glassware, hardware, machinery, and mill work, toys, rubber manufactures, paper and pasteboard, etc. She was our best customer in raw cotton and pig iron. She also took jute (raw and manufactured), mica, lac, hides and skins, etc

*America* is second in importance. She is our best customer in lac, raw skins, hessian cloth, and also buys raw cotton, and manufactured wool, tea, fruits and vegetables, etc. She sends machinery, dyeing and tanning substances, instruments, paper and pasteboard, raw cotton, rubber manufactures, hardware, copper, oil, etc.

*Germany* was fifth on the list before the last war. She bought raw jute, raw cotton, ground nuts, oil cakes, linseed, hides and skins, lac, tea, coir manufactures, etc. She sent machinery, dyeing and tanning substances, instruments, drugs and medicines, hardware, paper and pasteboard, rubber manufactures, glassware, cutlery, etc.

*France* bought raw cotton, jute (raw and manufactured), ground nuts, hides and skins, coffee, coir, lac, pulses, etc., and sent liquors, machinery, dyeing and tanning substances, cotton manufactures, drugs and medicines, woollens, silk goods, toilet requisites, etc. *Soviet Russia* sent tea chests, etc., and bought raw jute, tea, etc. from *India*. *China* imported raw cotton, jute goods, etc., and exported cotton piece goods, silk goods, etc. *Australia* buys jute bags and cloth, hides and skins, tea, etc., and sends horses, raw wool, provisions, wheat, etc. *Ceylon*, our neighbouring island, sends copra, coconut oil, tea, fish, seeds etc., and buys from us rice, cotton goods, coal, pulses, fruits, etc. *Pakistan* occupies the third place in

importance    India sends coal, cotton piece goods, iron  
    and steel, mustard oil, sugar, jute  
 Ceylon                                manufactures, etc, to Pakistan, and  
 imports raw jute, raw cotton, gypsum, hides and  
 skins, etc

### Main items of Exports and Imports

in 1954 55

(In crores of rupees)

<i>Exports</i>		<i>Imports</i>	
Jute manufactures	1 23 9	Food grains	67 6
Cotton manufactures	64 05	Raw Cotton	58 5
Tea	1 46 47	Machinery and	
Spices	11 1	mill work	83 9
Hides and Skins	26 2	Oil	90 0
Oilseeds and oils	26 1	Medicines	31 9
Raw cotton	20 1	Vehicles	33 8
Tobacco	10 8	Iron & Iron manu	
Lac	11 6	factures	30 2
Fruits and		Other metals	26 1
Vegetables	12 9	Hardware & Cutlery	17 7
Metallic ores	8 5	Paint	10 7
Scrap iron etc	19 1	Paper and Paste	
Total Food Products	1 98 1	Board	13 7
Total industrial raw		Electrical goods	11 3
materials	1 17 6	Woollen goods	2 9
Total manufacture		Yarn and Cotton	
goods	2 47 2	piece-goods	2 2
		Fruits & Vegetables	9 5
Total	5 67 5	Provisions & Oilman s	
		Stores Tobacco	1 2
		Total Food Products	1 15 6
		Total Industrial raw	
		materials	1 87 3
		Total Manufactures	3 04 4
		Total	6 09 9

**Balance of Payments** When we talk of the balance of trade, we include the values of only those goods which are exported and imported. Besides goods, we also export or import many services like the services of banks, insurance cos, shipping etc. These are called invisible items. In addition, there are often large transactions on government account such as the payment of grant in aid in various forms by the foreign governments to our country. When account is taken of all these items of payment due to and from us, the result is known as the *balance of payments on current account*.

We have seen that our balance of trade was unfavourable in all years from 1951-52. But our balance of payments on current account was unfavourable only in 1951-52, while in the next four years, it was favourable. In 1955-56 the current account balance has a surplus of Rs 20.7 crores as against Rs 8.3 crores in the previous year. How did the balance of payments become a surplus when the balance of trade was in deficit? This was due primarily to two facts. First, we had consistently a favourable balance in regard to the invisible items, which amounted between Rs 77 to Rs 80 crores each year. Secondly, we received large donations from the foreign governments. Such foreign aid amounted to Rs 46.2 crores in 1955-56 and to Rs 15.8 crores in the 1954-55.

Another interesting fact relating to the balance of payments was the fact that our trade balance with the countries belonging to the dollar area (i.e., the U.S.A., Canada, Latin America etc.) which was in large deficit in 1951-52 and 1952-53 registered a small surplus in 1953-54. After this year, it was again in deficit, but the amount of deficit has been very small (about Rs 3 crores

in 1955-56) If we take account of the invisible items and the amount of foreign aid given to us in the last 3 years, the current account balance has been in surplus in these years. In 1955-56, the surplus in relation to the dollar area countries amounted to Rs 49.3 crores. We have also a surplus on current account in relation to sterling area countries (*i.e.*, Great Britain, Australia, New Zealand etc). But we have a large deficit in our trade with the principal West European countries. Such deficit amounted to Rs 83.7 crores in 1955-56.

TABLE 2

*Balance of trade and payments*

(In crores of rupees)

	1951-52	52-53	53-54	54-55	55-56
1 Exports	790.1	601.9	539.7	596.6	642.2
2 Imports	962.9	633.0	591.8	681.6	747.7
3 Trade balance (1-2)	-232.8	-31.1	-52.1	-85.0	-105.5
4 Invisibles	+64.9	+80.5	+60.5	+77.5	+80.0
5 Official Donations	+5.3	+10.8	+19.0	+15.8	+46.2
6 Balance of payments on current account (3+4+5)	-162.6	+60.8	+47.4	+8.3	+20.7

## CHAPTER 15

### INDIAN CURRENCY AND EXCHANGE

From a long time the rupee has been the standard money in India. Though the name, rupee, has remained the same, the actual coin has varied in character from time to time. In the 19th century, the rupee was a full valued silver coin, and the value of the rupee was equal to the value of the silver bullion contained in it. In the last quarter of the 19th century, the value of silver began to fall in the world's markets, and with it the value of the rupee also declined. This caused some difficulties for the government of India, which decided to suspend the free coinage of silver into rupees from the year 1893. Before this year everybody was allowed to bring silver to the mint, and have it coined into rupees. This right to free coinage of rupees was suspended from that year, and only the government retained the right to manufacture and issue rupee coins. From that year till the end of the 19th century, the government did not manufacture any rupee coins. As a result, the supply of rupees ceased to increase, and as the demand for money began to increase with the growth of trade, the value of the rupee rose.

The next step was taken in 1898 when the whole question of the future of the Indian Currency System was examined by a Committee of experts. This Committee recommended that the government should try to introduce gold standard in India. During this period gold standard meant the circulation of gold coins in the country. So from 1898 the government of India adopted the policy of issuing gold coins in the shape of gold

sovereigns into circulation. But for some reasons this attempt proved a failure. As there was a very great demand for rupees in the country, the government began to issue new rupee coins into circulation.

**Gold Exchange Standard** In the beginning of the 20th century India was on the gold exchange standard. In order that a country may be on the gold exchange standard, it is necessary that no gold coins should circulate within the country. The local currency should consist of token coins and paper currency notes. In order to enable the merchants engaged in foreign trade of the country to make payments to foreign sellers in gold, the monetary authorities should undertake to buy and sell gold at a fixed price in terms of the local currency. But this gold is made available only at a foreign centre. In other words, the authorities will not give any gold in exchange of local currency within the country, but will both sell and buy gold at a foreign centre. In order to enable the authorities to sell gold at the foreign centre, a gold reserve fund is generally maintained at this centre.

In India also, during the years 1900-1917, gold coins did not circulate within the country. The local currency consisted of rupee coins (which were token coins) and paper currency notes. The Government of India undertook to buy and sell sterling in London (i.e., the British Currency) at the rate of 1s 4d per rupee. As England was on the gold standard during these years, sterling was fully convertible into gold, and so any merchant in India could obtain gold in London in exchange for Indian currency at the rate of 1s 4d per rupee. The Government of India maintained a large reserve in gold in London in order to be able to sell gold whenever required in London.

In 1917, the price of silver began to rise very high on account of the war and other circumstances. The price of silver rose so high that at one time the value of the silver bullion contained in one rupee became more than that of a rupee coin. There was a danger that all rupee coins would be melted. The government became unable to maintain the value of the rupee fixed at 1s 4d per rupee. They gave up the attempt to fix the value of the rupee at 1s 4d per rupee, and the gold exchange standard broke down.

Indian opinion was overwhelmingly against the gold exchange standard. There was a persistent demand in the country for the introduction of gold standard in India. In 1927, following the recommendations of another Commission of experts, the Government of India introduced the gold bullion standard in our country. Under this system, there was no attempt to introduce gold coins in India. But the government undertook to buy and sell gold in the form of bullion *within* the country at fixed prices in exchange of the local currency. The standard remained in force till September, 1931, when following the example of Great Britain, India gave it up. Since 1931, India was put on the *sterling exchange standard*. Under this system, the rupee was convertible into sterling at the rate of 1s 6d per rupee, and the government undertook to buy and sell sterling at this rate in exchange for Indian currency. Sterling was, however, no longer convertible into gold.

**Present System** After the second world war the allied countries decided to set up an International Monetary Fund. India is a member of this organisation. All members of this Fund have to keep the value of their currency fixed in terms of dollar or gold. They may



change the exchange value of their currency under certain circumstances with the permission of the authorities of the I M F. The value of the rupee has also been fixed in terms of dollar and gold. It was changed once in September, 1949, when India also devalued her currency, following the example of Great Britain. The value of a rupee was lowered and whereas previously one dollar could be had at for three rupees, one would have now to pay five rupees for one dollar. The value of the rupee has, however, been kept fixed at 1s 6d per rupee. The Reserve Bank of India now buys and sells sterling, dollar and other foreign currencies at fixed rates in terms of the rupee.

Though the rupee is the standard money in India, the actual content of the rupee coin has been changed from time to time. Originally the rupee weighed 180 grains, and contained 160 grains of silver and 20 grains of alloy. During the last war, the government had issued a new coin which contains only 90 grains of silver, the rest being alloy. The old coins are no longer minted. The government has also issued one rupee paper currency. It is a paper currency, but is equivalent in all respects to one silver coin.

The government also issues 8 anna, 4 anna, 2 anna, 1 anna, 2 pice, 1 pice and  $\frac{1}{2}$  pice coins. These are all token money and serve the purpose of subsidiary coins. These coins are manufactured at different mints and are issued from the branches of the Reserve Bank of India and from the Treasuries as and when required by the public. Very soon the system of decimal coinage is going to be introduced and coins of 1 naya paisa, 2 naya paisa, 5 naya paisa, 10 naya paisa, 25 and 50 naya paisa will be issued by the government into circulation. One naya paisa is 100th part of a rupee. One can get 100 naya

paisa for one rupee. These coins will be introduced from the 1st April, 1957. For the next 3 years old coins will also remain in circulation after which only the new ones will remain legal tender.

**Paper Currency System in India.** In its present form, paper currency notes were issued in India for the first time in 1861 by the Government of India. These were issued according to the principle known as the Fixed Fiduciary System. The Government issued a certain amount of paper currency notes (the amount was fixed beforehand) without keeping any reserve of gold or rupee coins behind it. This amount was known as the fiduciary issue. When the Government had to issue notes beyond this amount, it was required to keep cent per cent reserve in gold or rupees. This system was copied from England.

This system was changed in 1935, when the Reserve Bank of India was established. The function of issuing these notes was handed over to that Bank. Hence at the present moment, paper currency notes are issued only by the Reserve Bank of India. These notes are, however, guaranteed by the Central Government which will convert them into rupees if the Reserve Bank fails to do so. Notes of the value of Rs 2, 5, 10, 50, 100 and Rs 1,000 have been issued.

The Reserve Bank has to keep reserves against these notes. It must keep a reserve of gold and sterling equal to 40 per cent of the value of the notes issued. That is, if the Reserve Bank issues paper currency notes of the value of Rs 1 crore, it must keep in the reserve gold or sterling worth at least Rs 40 lacs. The value of gold kept in the reserve must never fall below Rs 40 crores. The

Paper Currency  
Reserves

remaining 60 per cent of the value of the notes is to be kept in the form of rupee coins, rupee securities issued by the Government of India, etc. As the Bank is required to keep a certain proportion (*i.e.*, 40 per cent) of the value of the notes in the reserve, this system is known as the Proportional Reserve System. It is better than the old system, *i.e.*, the fixed fiduciary system. Under the old system, the Bank would have to keep a reserve of one hundred rupees when it wanted to issue notes worth one hundred rupees. But under the present system, it can issue notes worth one hundred rupees when it keeps in the reserve gold or sterling worth only forty rupees. So this system is more elastic than the old system of paper currency.

**Proposed changes in the regulation of the Note issue.** In May, 1956, the government has introduced a Bill to amend the Reserve Bank Act in certain particulars. This Bill seeks to give up the method of proportional reserve system of keeping reserves against the note issue. Instead of requiring the Reserve Bank to keep a minimum reserve of 40 per cent in gold and foreign securities, the amendment lays down that the value of gold kept in the Paper Currency Reserve shall not be less than Rs. 115 crores, which is the value of the present stock of gold possessed by the Reserve Bank on the basis of the price of gold fixed by the International Monetary Fund. In addition, the amount of foreign securities shall not be less than Rs. 400 crores, which may, however, be reduced to Rs. 300 crores for short periods with the permission of the Central Government. This is being done to enable the Reserve Bank to issue large quantities of paper currency notes as may be required to finance the Second Five Year Plan.

These changes will make the system of note issue more elastic than before. Under the former system, the Reserve Bank has to keep at least 40 p.c. reserves in gold and foreign securities against any additional notes issued by it. In actual practice it has to keep much larger reserves (50 p.c. or so) in gold and foreign securities (mainly sterling securities). If the Reserve Bank has to issue additional notes of the value of Rs 1,200 crores in the next five years (which is equal to the amount of deficit financing), it would have to find foreign securities and gold worth Rs 500 to Rs 600 crores against this note issue. This would practically be impossible. Hence the proposed amendment will enable the Reserve Bank to issue additional notes as may become necessary, without being hampered in any way by the lack of gold and foreign securities. It can now issue any amount of paper currency notes without bothering about gold reserves.

## CHAPTER 16

### INDIAN BANKING SYSTEM

The principles of banking were known in India during very early periods. The bankers were known as the Sresthis or Chettis, and were respected all over the country. Banking on modern lines began to develop from the beginning of the 19th century. At the present moment, India possesses a central bank of the name of the Reserve Bank of India, a few commercial banks of which the Imperial Bank of India is the biggest institution, a number of foreign banking institutions known as exchange banks, indigenous banking institutions and some other specialised institutions.

**Constituents of the Banking System** The Indian banking system consists of a central bank at the top, known as the Reserve Bank of India, a state owned and managed commercial bank known as the State Bank of India, a large number of scheduled banks including the Exchange Banks, the indigenous bankers, and such institutions as the co-operative banks, the postal savings banks etc. In addition, there are a number of specialised institutions like the Industrial Finance Corporation, and the State Finance Corporations, and the N I D C and the I C I C.

The Reserve Bank of India is now a State owned and managed institution. As the central bank of the country, it is the sole authority for the issue of paper currency notes and coin. It is the banker to the government which keeps its funds deposited with the bank. It is also the banker to the other banks, most of which are required to keep 5 p.c. of their current account deposits and 2 p.c. of their fixed deposits with the

**Reserve Bank** The Bank lends money to those banks when necessary, supervises their operations and exercises full control over them. It buys and sells gold and foreign currencies like sterling, dollar etc., at fixed rates. Its main concern is to manage currency and credit and to control the Indian money market.

The State Bank of India was formerly known as the Imperial Bank of India, which has been nationalised in 1955. This bank, which is owned and managed by the government, is the largest commercial bank in the country and has also the largest number of branches. It is required to open another 400 branches in the next five years in order to develop banking in the rural areas. It accepts deposits, grants loans and deals in foreign exchange. It also acts as the agent of the Reserve Bank where the latter has no branches.

The scheduled banks are the ordinary commercial banks, which are so called because their names have been included in the schedule of the Reserve Bank of India. They do all kinds of banking business, and whenever, necessary, borrow funds from the Reserve Bank and the State Bank.

A number of scheduled banks deal mainly in the foreign exchange business. They are known as the exchange banks. They are mostly foreign banking concerns. They also undertake ordinary banking business in India.

The indigenous bankers undertake banking business on the traditional lines. They are known as shroffs, sahu-kars, chettis etc. Though they accept deposits, it is a minor part of their business. They finance the movement of agricultural crops within the country.

The co-operative banks are organised on the co-operative basis and are situated mostly in the villages,

catering for the agriculturists. The post office savings banks are run by the government and mainly accept deposits from the public. The I F C, S F C and other institutions lend long term funds for industrial development.

Banking habits have, however, been developed mainly in the urban areas, and that too in the cities. As a result, our banking resources are very small compared to some other developed countries.

**The Reserve Bank of India.** It is the central bank of the country and was established in 1935. The Bank has issued shares worth Rs. 5 crores, divided into shares of Rs. 100 each. All the shares were fully subscribed and paid up by private individuals and companies. But in 1949, the Bank has been nationalised and shares have been bought by the government. It is, therefore, a State owned bank. The Bank is managed by the Central Board of Directors. Consisting of 14 members, including a Governor, two Deputy Governors, ten Directors and one Government official. All of them are appointed by the Central Government. There are also four Local Boards of the Bank at Calcutta, Bombay, Madras and Delhi. These Local Boards manage such matters as are referred to them by the Central Board. A Bill introduced in the Parliament in May, 1956 proposes to abolish the Local Boards.

The main function of the Bank is to control the money market of India. First, it has been entrusted with the function of managing the note issue, and has the sole right to issue paper currency notes. The paper currency notes are issued through a separate department.

Functions

of the Bank, called the Issue Department. All coins are also issued through this department. Secondly, it is banker to the government and holds the funds of the central and State governments. It provides all sorts of banking services to the various government departments. It lends money to the government for short periods, and manages the public debts. Thirdly, it is also the banker to the other joint stock banks. All joint banks with a paid up capital and reserve of Rs 5 lakhs and more are entitled to become the 'scheduled banks' of the Reserve Bank. Each scheduled bank must keep five per cent of its current account deposits and two per cent of its fixed deposits with the Reserve Bank, which may, when necessary, raise these ratios up to four times the present ones. The Reserve Bank grants loans to these banks whenever they are in need of surplus cash. Thus the Bank is expected to provide for better banking conditions in the country. The position of all other banks will become sounder than before as they will be able to borrow money from the Reserve Bank in time of financial difficulties. Fourthly, the Bank purchases and sells sterling in exchange of rupees at the rate of 1s 6d per rupee and other foreign currencies at fixed rates. Lastly, it has also opened an Agricultural Credit Department to study all questions relating to the supply of credit to the cultivators.

In addition to these functions, the Reserve Bank may accept money on deposit. But it is forbidden to pay interest on these deposits. This has been done to prevent the Bank from competing with other banks for securing deposits. Moreover, it is forbidden to engage in trade, or to lend money against the mortgage of immovable property like land or building. It cannot grant any loan for a period exceeding 90 days.



**State Bank of India** This Bank's former name was the Imperial Bank of India. It was the largest commercial bank in India and was taken over by the government in 1955, after which it came to be known as the State Bank of India. It has a large number of branches, and its importance will be obvious from the fact that it acts as the agent of the Reserve Bank in places where the latter has no branch. It performs ordinary commercial business etc., accepts deposits of all kinds from the public, grants loans and advances to the people, discounts hundis etc. The other scheduled banks (for the State Bank is also a scheduled bank) borrow money also from the State Bank when they are short of funds. This Bank undertakes foreign exchange business. The main purpose for which the Bank has been nationalised is to help in spreading banking institutions in the rural areas. For this purpose it has been placed under an obligation to open 400 new branches in course of the next five years.

**Scheduled Banks** These are the commercial banks, which are also known as the joint stock banks. There are about 88 such banks with a large number of branches distributed all over the country. They are called 'scheduled' banks because their names have been included in the schedule of the Reserve Bank of India. Joint stock banks whose paid up capital and reserves amount to at least Rs. 5 lakhs are entitled to be included in the schedule of the Reserve Bank. These banks have to keep a deposit with the Reserve Bank equal to at least 5 p.c. of their demand deposits and 2 p.c. of their time or fixed deposits. The Reserve Bank may raise these ratios (i.e., 5 p.c. and 2 p.c.) four times if it is necessary for controlling the banks. In return, they are entitled to borrow from the Reserve Bank whenever that becomes necessary. They perform ordinary banking business like accept

ing deposits, grant of loans, discounting hundis etc. A number of them have begun to open branches in foreign countries and to buy and sell foreign currencies.

The business performed by these scheduled banks can be understood from their combined balance sheet given below.

TABLE I

All Scheduled Banks (89 in number)

(In crores of rupees)

Average	Demand	Time	Total	Total Investment	Total
	Deposits	Deposits	Deposits	Loans & in govt	cash
				Advances securit es	balances
1955 56	599 44	404 10	1003 53	648 07	370 71 87 16

**Exchange Banks** There is another class of banks which are known as *Exchange Banks*. They are so called because their main function is to engage in foreign exchange operations. There is another characteristic of these banks. They are all owned and managed by foreigners. They have all been established in foreign countries, and have opened some branches in India. Their main function is to finance the foreign trade of our country. They buy and sell foreign currency and discount the bills of exchange. They also accept deposits from the public and have now a days begun to grant loans to businessmen engaged in the internal trade of the country. Their business is not confined to India, but extends over the whole East. As these banks are all foreign institutions, this is an undesirable feature of our banking system. Some of the big Indian commercial banks have begun recently to undertake foreign exchange business.

These exchange banks are also scheduled banks as they have very large paid up capital and reserves. Their total number is 15, and they hold about 19 p.c. of the total deposits of all scheduled banks, i.e., Rs 190.90 crores out of a total of Rs 1003.54 crores in 1955-56. That their main business is the sale and purchase of foreign bills of exchange will be evident from the fact that while they hold only 7 p.c. of all inland bills of exchange, they hold nearly 60 p.c. of the foreign bills of all scheduled banks.

**Non Scheduled Banks** These are those joint stock or commercial banks whose paid up capital and reserves are less than five lacs of rupees. There are 384 non scheduled banks. Though their number is very large, their total business is much smaller than that of the scheduled banks. The total deposits of all these non scheduled banks amounted to only Rs 61.37 crores in 1955-56, while the scheduled banks possessed deposits worth Rs 1003.54 crores. Thus the average deposits of a scheduled bank amounted to Rs 11.28 crores against only Rs 15 lacs in the case of a non scheduled bank. Moreover, 66 p.c. of the total deposits of the non scheduled banks consisted of time deposits, while the percentage was only 40.2 in the case of the scheduled banks.

**Indigenous Bankers** These are all banks managed according to the modern principles. But India possessed banks from early times. These are known as *indigenous bankers*, to distinguish them from the banks managed on the European methods. These are called "indigenous" because they conduct banking according to the ancient Indian methods as opposed to the modern

methods India possessed a very efficient system of banking from very early times. These indigenous bankers are known by various names, such as Shroffs, Sahukars, etc. These are generally family concerns, and are not organised on the joint stock principles. They usually do business with their own funds, and lend them to the agriculturists and others. They discount hundis. Most of them combine banking with some other form of business connected with the internal trade of the country. They deal in cotton, grain or gold, etc., and many of them are big speculators on the share markets. Some of them have begun to accept deposits and issue cheque books. Their methods of doing business are very simple, which the ordinary village people can easily understand. While they try to lend money to those people who can provide good security, they often lend on personal credit without insisting on first class securities. They have few branches.

These bankers perform a very important function in our country. They provide banking facilities for the major part of the population of our country, especially for those living in the villages. But there are important defects in their organisation. They usually charge very high rates of interest for their services. The combination of banking with trading or some other business is also an undesirable feature. It is essential that these bankers should reform their methods, and modernise their system.

**Other Banks** We also possess some specialised institutions like Post Office Savings Banks, Savings Banks, Co-operative Banks, Land Mortgage Banks, etc. The *Post Office Savings Banks* are attached to the Post office. These accept deposits from the public and pay some interest, their funds being utilised by the Government.

The *Co-operative Banks* have been organised since 1904. There are primary co-operative societies, whose Co-operative Banks members are either agriculturists, or artisans, or salaried employees living in urban centres. These generally sell shares to their members, and can grant loans only to their members. They accept deposits from members and non members. They are financed by Central Co-operative Banks organised in every district or Taluka. Almost all States possess a State Co-operative Bank which grants loans to the Central Co-operative Banks which, in their turn, grant loans to the primary societies. About 85 per cent of these societies are organised to help the cultivators to meet their current requirements and to repay their old debts.

A few *land mortgage banks* have been established in the States. These are organised on the co-operative principle and grant loans against the mortgage of landed properties for long periods.

In spite of this impressive list we do not possess a sufficient number of banks. Compared to population, England, America or Canada possess a larger number of banks than India. Deposits per head are the lowest in India. The villages practically possess no banking institutions where the people can keep their savings in safe custody. Only a few towns can boast of joint stock bank or its branch. It is, therefore, necessary to organise a large number of banks on sound lines, especially in the rural areas.

## CHAPTER 17

### THE TAX SYSTEM IN INDIA

India does not possess a single system of government. Though the full federation has not been established, there are at present two sets of government functioning in our country. The Central Government, or the Government of India sits at New Delhi, and exercises authority over the whole of India. India has been divided into a number of States, each containing another set of government known as the State Government. The former has been entrusted with the function of administering the union or central subjects like Defence, External Affairs, Currency and banking, Railways and Post Offices, etc. The State Governments have been put in charge of the following —Law and Order, Prisons, Justice and Jails, Education, Agriculture, Co-operation, etc. There is another set of subjects like the Press, Electricity, Criminal law and Procedure, Marriage and Divorce, etc. These are called Concurrent Subjects, and are administered by both the Central and State Governments, the laws passed by the former generally prevailing over those of the latter in regard to these subjects.

**Division of the sources of revenue between the Union and the State Governments.** These two sets of government require sufficient revenue to defray their expenses. So according to the new Constitution, each government has been entrusted with certain sources of revenue. *The Central Government* enjoys the revenue from the following sources, viz, Import Duties, Corporation tax, Federal Railways, Posts and Telegraphs ;

Profits from currency and coinage and from the Reserve Bank, Salt Duty, other excise duties (*e.g.*, on sugar, matches, tobacco, kerosene, etc.), Export Duties including the Jute Export duty, and income tax, (a part of which not exceeding 50 per cent is to be given to the States) *The State Governments* have been given the following sources of revenue, *viz.*, Land Revenue; Forests, Irrigation, Registration fees, Court fees, excise duties on alcoholic liquors, drugs and narcotics, Stamp duties, Sales tax, taxes on Trades, Professions, etc., taxes on betting, gambling and entertainment, taxes on agricultural incomes, Death Duties, etc. The States will also get a part of the proceeds of the income tax, and a portion of the jute export duty will be distributed among the jute growing States, *i.e.*, W Bengal, Assam, Bihar and Orissa. If the finances of the Central Government improve, it may distribute a part or whole of the proceeds of the central excise duties, salt duty and export duties to the States.

This was the scheme of distribution laid down in the constitution. There was also a provision that the President would set up, at the end of every five years, a Finance Commission to determine the proportion of the income tax to be handed over to the States, the manner of distribution among the States and other important matters. The First Finance Commission issued its report in 1953. It recommended that for the next five years 55 p.c. of the net proceeds of income tax after deducting the expenses of collecting the tax was to be distributed among the States. Before this 50 p.c. was distributed. It also laid down the manner in which the share of each State was to be determined. Secondly, it recommended that 40 p.c. of the proceeds of the Union excise duties on tobacco, matches and vegetable ghee

was to be handed over to the States. The amount is to be distributed on the basis of the population of each State. Lastly, additional grants in aid were to be paid to some of the States like West Bengal, Bihar etc.

These recommendations have been carried out. A Second Finance Commission has been set up recently for the same purpose.

**Sources of revenue of the Central Government** The revenue of the Government of India is derived from the following sources:

1 *Customs* Before the last war, the customs duties easily secured the first place in point of yield among all the sources of revenue of the Government of India. But during the war, its place was taken by income tax. It has again regained the first place. This is an important source of revenue for the Central

**Government** These duties are levied on the imported goods and on exports from India. *Export duties* are levied on jute and rice, and tea. A portion of the proceeds of the jute export duty are handed over to the jute growing States, i.e., W. Bengal, Bihar, Assam and Orissa. *Import duties* These duties are estimated to yield about Rs. 150.0 crores according to the budget of 1956-57.

2 *Excise Duties* Excise duties have been levied on sugar, matches, kerosene, pneumatic tyres, tea and betelnuts, etc. These are the duties which are levied on goods produced and consumed in India. These duties are estimated to yield about Rs. 145.45 crores in 1956-57. Revenue from this source is, therefore, increasing gradually. These, it should be noted, are indirect taxes on commodities. 40 p.c. of the proceeds of the excise



duty on matches, tobacco and vegetable ghee are handed over to the States

3 *Income tax* The income tax, as the name implies is levied on all persons whose income exceed Rs 4 200 a year. This tax is levied at a progressive rate. In other words, the larger the income, the higher is the rate at which this tax is levied. Persons whose income exceeds Rs 20,000 a year have to pay, besides income tax at the usual rate, a *sur tax or super tax* to the government. This is a tax levied on very high incomes at very high rates. The effect of this high rate of tax is that a person whose annual income is rupees one lakh will have to pay Rs 55,000 in income tax. He will then receive only Rs 45,000 after paying tax. A person whose annual income is Rs 5 lakhs will have to pay Rs 4 20 lakhs in taxes, i.e., about 84 p.c. of his income. It should be noted that the whole of the revenue from this source is not enjoyed by the Central Government. The latter retains for itself 45 per cent of the proceeds of the income tax. The remaining portion (55 p.c.) is distributed among the States.

According to the budget estimates for 1955-56, the total income tax collections are expected to amount to Rs 138 16 crores. Out of this, the share to be paid to the States would amount to Rs 53 35 crores, leaving a net total of Rs 84 81 crores, which is to be retained by the central government as its share of the income tax.

4 *Corporation Tax* This tax is levied on the profits of all joint stock companies operating in India. The revenue from this source is expected to amount to Rs 41 84 crores, and the whole of it will be retained by the central government.

Thus the total revenue from the income tax and the Corporation tax will amount to Rs 126 05 crores.

5 *Railways.* The railways are an important source of revenue for the Government of India. This major portion of these railways is owned and managed by the Government. A portion of the surplus profits from the working of these railways is handed over to the Government. In 1956-57, this source is expected to yield Rs 6.57 crores.

6 *Currency and Coinage.* The Central Government also gets the profits on the coinage of rupees. A part of the profits earned by the Reserve Bank of India is also handed over to the Government. These sources are expected to yield Rs 19.90 crores in 1956-57.

7 *Posts and Telegraphs.* The Government of India also obtains some revenue from the Posts and Telegraphs Department. The revenue from this department is estimated to be Rs 65 lakhs in 1956-57.

The total revenue of the central government in 1956-57 is estimated to amount to Rs 536.25 crores.

**Main Heads of Expenditure** 1 *The Defence department* spends the major portion of the funds of the Government of India. Rs 203.97 crores will be spent by this department in 1956-57.

2 *The expenditure on this department* is high on account of the Kashmir episode. But even in normal times, this department absorbed a very large percentage of the revenues.

3 *Civil department.* The expenditure on the civil departments amounts to Rs 38.39 in 1956-57. This includes the expenses incurred in connection with the administration of the various departments of the Government of India, e.g., the general administration, External Affairs, the Finance Department, Departments of Justice, Jails, Police etc.

3 *Debt charges* Another important item of expenditure relates to the payments made in connection with the debt services. The Government has borrowed, and is borrowing large sums of money to some of the States. In 1956-57 the expenditure on account of these loans will amount to Rs 35.50 crores.

4 *Developmental Services* These include the expenditure on account of the following departments, viz., education and scientific departments, medical and public health, agriculture and rural development, irrigation and multi-purpose projects, aviation, broadcasting, community development projects etc. The budget of 1956-57 proposes to spend Rs 127.10 crores on these items.

5 *Contributions and grants in aid to States* This item is expected to amount to Rs 38.00 crores in 1956-57.

The total expenditure of the Government of India is expected to amount to Rs 536.25 crores according to the latest estimates of 1956-57.

### Government of India and expenditure

#### Main heads of revenue

(In crores of rupees)

Revenue	1956-57
1 Income Tax (net)	84.81
2 Corporation Tax	41.84
3 Customs	150.00
4 Union Excise Duties (net)	145.45
5 Other Taxes and Duties	28
6 Misc. Taxes on Property and Capital Transactions	2.31
7 Railways	6.57

8	Currency and Mint (Profits of the Reserve Bank)	19 90
9	Total Tax Revenue	424 69
10	Total Revenue	484*42

### Expenditure

1	Defence	203*97
2	Developmental Services	127 10
3	Civil Administration	38 39
4	Debt Services	35 50
5	Contributions to States	38 00
6	Miscellaneous	49 39
7	Total Expenditure	536 25

**Public Debts in India** Like the Governments of other countries, the Government of India has also borrowed, from time to time, large sums of money to meet some items of expenditure. The loans contracted by the government from the public of this or other countries are known as our public debts. The government regularly pays, out of the general revenues, interest at a fixed rate to the persons who have lent the money. In addition, the government promises to repay the sum borrowed after a certain period of time varying from three months to a number of years. If the loan is to be repaid after a short period of time, it is known as a floating or unfunded debt. If it is to be repaid after a long time, it is known as a funded debt.

The Government of India has also raised both funded and unfunded debts. The Defence Bonds which are to be paid after 10 or 12 years fall in the class of funded debts. The government has also contracted unfunded debts in the shape of Treasury Bills, Deposits in the Post Office Savings Banks, etc. The total public debts of the Government of India stand at the figure of Rs 2,550

crores at the end of March, 1951. The amount of unfunded debts is Rs 452 crores, and the rest belong to the class of funded debts.

Before the last war the government raised loans not only in India, but also in England. The loans raised from the people of India are known as rupee loans. The government also borrowed large sums of money from the British people. These are known as our sterling debts as the loans were contracted in terms of sterling, the English currency. Before the last war the amount of these sterling loans (including railway annuities) stood at the figure of Rs 469 crores. During the last war the government has been able to repay these sterling loans, and so the total amount of these debts now stands at the figure of Rs 27 crores. So about Rs 398 crores worth of sterling loans have been repaid.

One important feature of our public debts is that most of them are *productive* loans. If the proceeds of the loan are spent for the conduct of the war, then there is no tangible asset (in the shape of some property) against these loans. The loans will then be regarded as unproductive. An example will make everything clear. Suppose a man raises a loan of Rs 1000, and spends the whole sum in drink and debauchery. The loan is to be regarded as unproductive. But if he spends the proceeds of the loan in building a house, he will be able to earn some money income by hiring the house to others. This loan is a productive loan. A large part of our public debts has been spent in the construction of railways, irrigation canals, etc. The government derives some money income from these projects. The major portion of our public debts is thus productive. Of the total debts

of Rs 2,500 crores, only Rs 837 crores represent loans not covered by any income yielding assets. This is a very good position. In England, the major portion of public debts has been contracted for unproductive purposes like the waging of wars, etc.

### A criticism of the Indian tax system

A study of the budgets shows that in India, the governments raise a large percentage of their revenues by means of the indirect taxes, and a small proportion from the direct taxes. The burden of taxation is not, therefore, distributed equitably among all classes of population. The poorer classes have been made to contribute heavily towards the revenues of the state, while the rich have often escaped with light burdens. Thus our tax system does not carry out the first canon of taxation that taxes should be levied according to the ability of the taxpayers. Excepting that intangible thing security, the poor classes do not derive much benefit from public expenditure as a whole. Very little is spent on the spread of education in the villages, or on the provision of medical facilities among the masses. Scarcely anything is spent on the development of agriculture. In the Indian railway system, the passengers who travel in the third class contribute a very large percentage of the total fares collected from all classes of passengers. But they do not get any comforts, nor do the railways spend much in giving them any. Those who travel by the first and second classes contribute a small percentage of the total fares. But they get all the comforts, and the railways are all attention to them. It is the same thing with the Indian public finance. Those who are least able to pay have to pay most in the aggregate. They get the least benefit. Those who are most able pay less in the aggregate.

## CHAPTER 18

### STATE AND LOCAL FINANCE

Under the constitution of 1950, the states have been granted autonomy from the control of the central government. Such autonomy presupposes that the states should also have independence in the financial sphere. Hence the Act handed over certain sources of revenue like land revenue, forests, irrigation, stamps, registration, excise duties on drugs, narcotics, etc., entirely to the states. The income tax is to be levied and collected by the central government, which must hand over a certain percentage not exceeding 50 to the states. This has since been increased to 55 p.c. The latter were also given independent powers of borrowing money from the market. The State Governments derive their revenue from the following sources:

1. *Land Revenue* Land revenue forms the sheet anchor of state budgets and stands first in point of yield. It is collected from the Zemindars and ryots. The revenue from this source has increased on account of the abolition of the Zemindari settlement in the States. The revenue from this source does not usually vary, being more or less stable in amount. It is, therefore, an inelastic source. It has been described as a tax, not on ability, but on liability. Every cultivator has to pay it to the Government, whether he earns any profit or not. It is the only direct tax collected by the state governments. But in income tax, there is a minimum income upon which no tax is levied. But in land revenue there is no such minimum. However small may be the plot of land, the cultivator has to pay land revenue to the government. As the cultivators are mostly poor, there is an

insistent demand in the country for the reduction of the burden of land revenue

2 *Excise Duties* An important source of revenue is usually the *excise duty on drugs, narcotics and alcoholic liquors*. These duties are levied on the manufacture and sale of these intoxicants. These duties are generally levied on the principle of maximum revenue and minimum consumption. The duties are high so as to check the consumption of alcoholic liquors and drugs as also to bring as large a revenue as is possible. An increase of revenue from this source indicates that the people are drinking more wine, or smoking more ganja or hemp. This is certainly undesirable. There is a strong demand for the adoption of the policy of prohibition in our country. If this is adopted, the revenue from this source is likely to decrease.

1 *Stamps* The third important source is usually *stamps*. These include two kinds of duties, the court fees paid by all litigants, and duties on commercial documents like bills of exchange. The former are levied and collected by the State Governments. An increase of revenue from this source means that the people are indulging in more litigation. This is not always desirable. The duties on commercial documents are levied and collected by Central Government, which, however, hands over the entire proceeds to the States. This has been done in order that these duties may be levied at uniform rates all over India. These contribute 16 p c, and 3.4 p c and 10 p c to the total revenues of West Bengal and Assam, and the Uttar Pradesh respectively.

4 *Irrigation* Irrigation works yield large sums of money to the State Governments. The cultivators who take water from the canals have to pay a water rate (i.e., tax) to the government. This source accounts for



about 38 p c of the total revenues in the Punjab, about 12 p c in the Uttar Pradesh, about 13 p c in Madras, about 27 p c in Bombay, and about 1 p c in the Madhya Pradesh

5 *Forest* Forests contribute about 10 p c of the total revenues in the Madhya Pradesh, 8 p c in Assam, 37 p c in the Uttar Pradesh, 3 p c in Bombay and Madras, 2 p c in the Punjab and about 1 p c in West Bengal. Revenue from this source is derived mainly from the sale of timber and other forest products, grazing fees, etc

6 *Registration* The revenue from the *registration fees* amounts to 2 p c of total revenues in Madras and Bihar, 16 p c in West Bengal, 1 p c in Bombay and the Madhya Pradesh, nearly 1 p c in the Uttar Pradesh, and 8 p c in the Punjab. Persons who want to register certain documents have to pay fees at the time of registration. These are not taxes, but fees for services rendered by a particular department of the Government

7 *Sales Taxes* This is going to be the most important source of revenue of the States. The States have followed two methods in levying the sales tax. West Bengal and a number of other States have levied this tax at the time of the sale of goods to the final consumers, and so the tax is levied only once on the sale of goods. Bombay, Madras and some other States levy what is called the *multi point tax*, i.e., the tax has to be paid everytime a sale of goods takes place whether to a dealer or to the final consumers. In addition to the general sales tax on all goods, sales tax is also levied at comparatively high rates on petrol. The yield from these taxes is the highest in Bombay and Madras and forms an important part of the total revenues of the Part A States

8 *Miscellaneous taxes* States have also levied the *Motor Vehicles Tax*, and the total yield from this tax forms about Rs 11.5 crores in Part A States, i.e., about 2.8 p.c. of their total revenues. They have also levied *entertainment tax*, i.e., a tax on the sale of tickets to cinema shows, theatres etc. This tax yields Rs 5.92 crores in Part A States. Eight States (Andhra, Bihar, Bombay, M.P., Madras, Punjab, U.P. and W. Bengal) have levied *electricity duties*, which yield a total of Rs 5.48 crores in all these States. Seven States (Assam, Bihar, M.P., Madras, Orissa, U.P. and W. Bengal) have levied *agricultural income tax*, yielding a total of Rs 3.92 crores in these States. It should be noted that the Central Government does not levy the income tax on agricultural incomes. Two States (Assam and M.P.) have levied a *tax on professions, callings etc.*, yielding Rs 5 and Rs 4 lakhs respectively. Lastly, all States receive some revenue from the *Estate Duty*. This duty has been levied recently and is imposed on the properties of persons after their death. The duty is levied and collected by the Central Government, and the proceeds are distributed among the States. It is expected to yield Rs 1.96 crores in 1956-57 in the Part A States.

9 *Share of the Union taxes* States also receive shares in certain taxes levied by the Central Government. Thus 55 p.c. of the proceeds of the income tax, and 40 p.c. of the proceeds of the union excise duties on vegetable ghee, matches and tobacco are distributed among the States. About 14.6 p.c. of the total revenues of the Part A States is derived from this source. Thus the U.P. gets Rs 12.34 crores, and Bombay Rs 11.80 crores.

Orissa, Assam, Bihar and West Bengal also get subventions or grants of money from the Central Government.

# Main Heads of revenue in States in 1956-57 (In Lakhs of Rupees)

States	Land Revenue	Stamps & Registration	Sales Taxes	State Excises	Share of Union Excise	Share of Income Tax	Agri. Income Tax	Estate Duty	Total
Andhra	4 09	2 09	4 18	7	1 08	3 11	—	12	23 11
Assam	2 37	37	1 45	170	48	1 27	1 26	6	21 15
Bihar	8 39	272	3 50	478	2 11	5 52	13	25	42 87
Bombay	7 29	4 67	20 62	85	1 89	9 91	—	41	76 34
M. P.	5 94	1 24	3 47	1 95	1 12	2 97	—	4	29 18
Madras	7 91	5 89	11 30	1 28	1 88	5 56	1 25	23	59 53
Orissa	1 97	58	1 71	1 29	77	1 98	4	8	18 71
Punjab	2 80	88	2 97	2 67	67	1 84	—	7	28 76
U.P.	22 04	3 01	5 61	4 93	3 32	8 92	58	36	77 97
W. Bengal	5 29	3 53	8 27	4 97	1 30	6 37	66	26	48 46
Total of Part A States	68 09	24 98	63 08	23 43	14 62	47 45	3 92	1 96	4 26 08
Hyderabad	5 35	58	3 90	7 02	98	2 55	3	11	25 59
M. B.	4 53	43	1 72	1 60	42	99	4	4	18 41
Mysore	1 64	88	1 91	1 64	4	12	15	7	18 30
Pepsu	1 25	28	66	2 01	18	42	—	2	9 81
Rajasthan	5 95	68	2 06	2 66	—	1 98	9	9	24 09
Saurashtra	2 98	31	1 41	5	—	—	—	3	14 12
T. C.	74	97	2 60	2 31	—	—	1 25	6	17 96
Total of Part B States	22 54	4 13	14 28	17 23	2 42	6 06	1 56	42	1 28 28

## Main heads of expenditure of the States

1 *General administration* Expenditure on the general administration and Police absorbs the major portion of the revenues of State. The expenses in connection with the general administration are mainly incurred for paying the salaries of the public servants. It is desirable that this should be scaled down by lowering the salaries paid to the officials. The maintenance of a costly administrative staff is a mockery in the face of the extreme poverty of the masses.

2 *Police* The expenditure on the Police Department is also very heavy. It forms nearly 11 p.c. of the total expenditure in West Bengal and 12 p.c. of that in Bombay. We are spending too much for our protection.

3 *Justice and Jails* The administration of justice forms another important item of expenditure in the state budget. It includes the expenses of maintaining the jails. The first three heads absorb nearly one third of the total revenues of a State, leaving two thirds for the various other departments.

4 *Education* Education forms the most important item of expenditure among the nation building departments. Considering that the vast majority are illiterate, expenditure on this department should be increased. We must take steps to educate everybody.

The State Governments also spend money on *medical relief, public health, development of agriculture and industries, spread of the co-operative movement*, etc. The construction and maintenance of *civil works* also form an important head of expenditure of the States.

According to the budget estimates of 1956-57, the total revenues of Part A and B States amounted to Rs. 655.36 crores, and their total expenditure amounted to Rs. 630.75 crores.

# Main Heads of Expenditure in States in 1956-57 (In Lakhs of Rupees)

States	Education	Medical Public Health	Agrary Veterinary Co- operation	Irrigation	Indus- tries	Electri- city Schemes	Civil Adminis- tration	Total
Andhra	4 65	1 99	1 52	2 57	46	1 75	6 67	26 36
Assam	4 12	1 70	2 78	41	80	4	3 42	24 80
Bihar	10 33	7 36	6 25	1 98	1 41	36	10 28	63 75
Bombay	16 02	6 16	3 42	2 52	1 06	—	17 54	76 11
M. P.	7 16	1 97	2 71	35	53	—	7 31	33 00
Madras	12 18	4 39	3 61	3 34	4 07	2 86	17 03	66 38
Orissa	3 20	1 46	2 58	62	77	25	5 07	24 32
Punjab	4 80	2 02	1 65	1 23	92	37	6 01	29 23
U. P.	12 77	5 52	6 17	5 28	3 43	1 19	17 81	87 52
W. Bengal	9 16	6 50	4 05	1 91	1 74	—	13 75	62 65
Total of Part A States	84 42	39 07	34 75	20 21	15 19	6 82	99 73	4 88 93
Hyderabad	6 52	2 29	1 61	45	41	—	5 89	29 89
M. B.	3 49	1 91	2 26	20	72	2	4 25	18 34
Mysore	4 88	1 71	2 20	61	1 02	1 20	2 79	22 18
Pepsu	1 56	84	51	—	11	—	1 80	9 34
Rajasthan	4 44	2 23	1 14	55	67	14	5 58	25 79
Saurashtra	2 53	1 31	99	47	37	1	2 10	15 18
T. C.	5 99	2 24	1 33	17	82	87	2 59	21 04
Total of Part B States	29 41	12 53	10 04	2 45	4 12	2 24	25 00	1 41 82

**Criticism of State Finance** One important point to be noticed is that all the important sources of revenue have been allocated to the Central Government. The work of reviving industries, developing agriculture, educating the masses, and improving their health has been given to the State Governments. These are highly important if we are to raise the standard of life of the masses. The State Governments require large sums of money to carry out these duties successfully. But none of them has enough money to do the necessary work. The States have been given inelastic sources of revenue. Land revenue, excise duties, court fees,—all these sources are likely to yield decreasing amounts of revenue if popular demands are to be carried out. Forests can be made to yield larger revenue than at present. But this will take time. The State Governments have, therefore, been faced with the alternative of either giving up all plans of social and economic betterment of the masses, or levying additional taxes upon the poor people. The Central Government should not sit tight over all the fruitful sources of revenue. It should cut down its expenditure, especially in the military department, and lower the salaries of the I.A.S. and other services. It will then be able to hand over large portion of income tax and large slices of the excise duties to the States. The latter will then be able to spend more money on improving the lot of the poor. The State Governments should also carry out suitable measures of retrenchment. They should think out a consistent plan embracing all aspects of the economic life of the people.

There is room for practising economies in the expenditure of the states. The salaries of the public officials have been fixed at a very high rate considering the poverty of the country. A nation whose average income

is barely Rs 23 per month can ill afford to pay Rs 2,000 to Rs 5,000 to its so called public servants. It has been well said that India is a hullock cart country with a Rolls Royce administration. In no other country of the world are the public servants so highly paid as in India, and India is one of the poorest countries! If the salaries of the public officials are scaled down, much useless expenditure can be easily avoided. There is no reason why the public servants of our country should live in lordly style, while the masses who are their masters should have to live only on one meal a day.

But mere economy in expenditure will not do. The States should try to utilise new sources of revenue to augment their resources. One such source is the Death Duty. It is a direct tax, and has been levied in every advanced country of the world. There is no reason why this duty should be levied at such low rates as has been the case in India.

### Sources of revenue of the local bodies

The people have to pay taxes not only to the Government, but also to the various local bodies existing in the country. In India, there are two sets of local bodies. One set has been entrusted with the task of administering the affairs of the cities and towns. There are corporations in the big cities and municipalities in other towns. The other set is busy with the affairs of the villages and other rural areas. These are District Boards and other subordinate boards.

**Municipalities** The taxes levied by these local bodies can be divided into four groups. First in importance come the taxes on property or land. The municipalities derive a large revenue by levying a tax on houses and their sites situated in the municipal

areas. This is usually levied at the rate of a certain percentage on the value of the properties of the rate-payers. Secondly, these local bodies levy taxes on trade, such as octroi duties, terminal taxes, tolls, etc. *Octroi*

*Octroi duties* are taxes levied by the municipalities on goods brought into or taken out of the municipal area. These

are like the import and export duties levied by a municipality. *Tolls* are the charges which individuals using a particular road or crossing a bridge have to pay for the privilege of using that road or bridge. Octroi duties are important sources of revenue for the municipalities. These are collected through the agency of the railways, or directly by the agents or the municipalities. There is much criticism of these duties. When they are imposed on the necessities of life, the burden on the poorer classes becomes heavy. Being indirect taxes on commodities, they are inequitable in incidence. They impose greater burden on the poor than on the rich. Moreover, the process of collection of these duties subjects the tax payers to a great deal of inconvenience. Thirdly, they derive some revenue by levying fees and issuing licences. These charges are usually made in return for some specific services rendered to the individuals by the local bodies. For example, the municipalities charge fees for supplying water, and scavenging fees for sanitary purposes. A fee is also charged on account of the lighting of the roads. Licences for musical halls, vehicles, dogs, etc., are granted in return for the payment of some money. Fourthly, they levy certain taxes on persons, such as the licence fees for professions, trades and callings, etc. Those who take up any profession or calling have to take a licence from the local body after paying money to the latter. Fifthly, the



grants from the government form an important source of revenue for the municipalities. These local bodies also obtain grants of money from the State Governments for specific purposes like improving water supply, sinking tube wells, etc. Lastly, they obtain some revenue from miscellaneous sources. For example, they levy a tax on cycles, and derive some revenue from municipal properties like markets, slaughter houses, etc.

They spend their money for the following purposes, *viz.*, construction and repair of roads, bridges, parks, etc., water supply and drainage, maintenance of hospitals, dispensaries, vaccination, education, especially primary education, etc. The municipalities have to look to the lighting of the streets and to make suitable conservancy arrangements, etc.

**District Board** These derive their revenues from many sources. The most important source is the cess

Land cess	levied on land. This cess is levied at a flat rate (as so many pice per rupee) on the total rent paid by each owner or cultivator. It is collected along with the land revenue by the agency which collects land revenue. Since this cess is levied at a flat rate, it proves more burdensome to the poor than to the rich. Secondly, the Boards derive some revenue from tolls on roads, ferries and bridges. Thirdly, they derive some revenue from cattle pounds, melas and exhibitions, etc. Fourthly, receipts from education, medical receipts and income from property also contribute to the revenues of the Boards. Lastly, they also obtain grants of money from the government for various purposes.
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The main items of expenditure are the following. First, the Boards spend a large sum every year on the

construction and maintenance of roads and bridges. Next comes expenditure on primary schools, tols and muktabas or Madrassahs. The Boards have to spend money on the construction and maintenance of hospitals, dispensaries, and for the improvement of public health in the villages. Another item of expenditure is the maintenance of veterinary hospitals, cattle pounds, the holding of fairs, melas, etc., etc.

**Causes of low incomes** As in the case of the State Government, these local bodies also suffer from inadequate funds. The resources of these institutions are utterly insufficient for carrying out Schemes for improving the public health and for educating the masses. What are the causes of such low incomes of local bodies? The first reason is the extreme poverty of the general mass of the people. Unless the incomes of the people increase, our taxable capacity is bound to be low. Secondly, the local bodies have been left with restricted sources of revenue. Thirdly, local bodies have also shown an extreme unwillingness to develop all their sources of revenue to the fullest extent. For example, the tax on houses and land is levied at a low percentage. This has been due to the unwillingness of the elected representatives to displease the ratepayers. Lastly, our local bodies have not developed trading services and enterprises as in other countries. In the west, many local bodies own and manage gas companies, tramways etc., and derive large revenues from them. Our local bodies have not yet utilised these sources.

How to enlarge the resources of the local bodies? The Taxation Enquiry Commission suggested that the following taxes should be left for the exclusive use of the local bodies, viz., (a) taxes on land and building,

(b) the octroi, (c) taxes on vehicles which are not mechanically propelled (i.e., on carts, horse drawn carriages etc.), (d) taxes on animals and boats, (e) taxes on professions, trades, callings and employments, and (f) taxes on advertisements other than those published in newspapers. In addition, the state governments should allow the local bodies to levy two other taxes, the theatre or show tax and the duty on the transfer of property. Moreover, not less than one fourth of the proceeds from the motor vehicles tax should be distributed to the municipalities and district boards, and not less than fifteen per cent of the land revenue to the village panchayats and rural boards. The State governments should also provide grants in aid to the local bodies and the amount of grant in aid should be such that, after taking into account its own resources, the local body will have fairly adequate finance for discharging its obligatory and executive functions. Such grants would be of two types,—basic grants and specific grants. Basic grants are to be spent for the general purpose of the local bodies and are to be fixed in amount for a number of years. Specific grants are to be sanctioned for particular purposes such as, say, the spread of education, or the provision of water supply etc. In the case of the bigger municipalities which cannot carry out essential projects of water supply, drainage, slum clearance etc., for lack of capital funds, the State governments should grant loans to them directly.

## CHAPTER 19

### MISCELLANEOUS PROBLEMS OF INDIA

Originally famines meant a severe scarcity of food in a particular part of the country. When crops failed for a reason or two, the people had to suffer from scarcities of food. No means were available for bringing food from other distant parts of the country which were fortunate in growing good crops. Failure of rains in all parts of the country was an extremely rare occurrence. Even when there was a failure of rains in one part of the country, the other parts generally obtained good rains and good crops. The means of rapid communication were very few. There was an absence of good roads linking all parts of the country. The railways were non-existent. Hence when there was a scarcity of food in one part of the country, food could not be rapidly transported to that part from the other areas. The people of that area had to die of hunger and starvation.

But now a days famines are no longer famines of food. If there is a failure of crops in any part of India, large quantities of food can be brought to that part quickly through the rail ways and steamers, either from other areas of India, or from foreign countries.

Now a-days famines mean scarcity of money or employment.

*Famines are really famines of money or of employment, not of food. People die of starvation mainly because they do not possess any money with which to buy food.*

**Causes** The causes of famines can be divided into Inadequate or two parts—immediate or physical excess ve rains causes, and real or economic causes.

The immediate cause of famines is the failure of crops. Crops will fail, if, due to any reason, there is inadequate rainfall in the country. If Deforestation the monsoons supply small quantities of rains, or if the rains do not come timely, or cease early, the fields become dry for want of water. The crops will fail. The same result will occur if there are excessive rains, and floods destroy all crops. Secondly, it has been stated by many authorities that one of the important reasons of inadequate or excessive rains is the deforestation of the country. If the people cut down all trees in a forest, especially in or near the hills, there will either be inadequate or excessive rains in the country. Lastly, famines will occur when locust pests or other insects destroy the crops in any area.

All these causes are responsible for the failure of crops. But we know that famines are no longer famines of food, but of money. *The real cause of famines is the extreme poverty of the general masses.* The causes of such poverty are not far to seek. The vast majority of the people live on agriculture. The number of people who depend on land for their livelihood has increased considerably owing to the decline of the old cottage industries. So the pressure of population on land has increased. But the incomes derived from land are extremely meagre. We have seen that the output per acre in India is practically the lowest in the world. As a result of such low productivity, incomes of the agriculturists are very small. They do not follow any other secondary

Poverty of the masses

Decay of cottage industries

Absence of secondary occupations

occupation and so cannot add to their incomes. The incomes earned by the cultivators are insufficient for their daily needs. More Thriftless habits over, owing to their thriftless habits, the cultivators squander away their small incomes in giving caste dinners on the occasion of marriage or sradh ceremonies. Hence they cannot save anything. As they have no savings, they do not possess any money to buy food when there is a failure of crops.

**Remedies for famines** The chief remedies for famines are two,—*viz*, adequate water supply and increased money incomes. If arrangements are made to supply water in sufficient quantities to land, failure of crops will be rare. Steps should be taken to construct more irrigation works—more tanks and more canals. In this way, our dependence on the monsoons could be reduced. *Secondly*, steps should be taken to stop the indiscriminate cutting down of the trees in the forests. Forests induce rainfall and so the government should strictly follow the policy of conservation of forests. *Thirdly*, the drainage system of the country should be scientifically studied, and suitably improved. In that case an excessive rainfall will not always flood the whole countryside. The excess water would then be carried easily through these drains to the sea without damaging the crops. *Fourthly*, the government should conduct research, and devise suitable measures to deal with the locust pest and other insect pests. These will not cause the destruction of the crops. *Lastly*, more railways and more roads

should be constructed, linking every part of the country with other areas. If there is a failure of crops in one place, food can be easily brought from other parts where crops are more abundant.

*Above all, it is absolutely essential to solve the problem of poverty.* Famines are caused by poverty. Unless the money incomes of the masses increase, it is idle to expect a proper solution of the problem of famines. Too many people try to live on land. Unless the pressure of population on land decreases, agricultural productivity will not increase. So steps should be taken to develop cottage industries and other big industries so that the people who leave the land may be provided with suitable jobs.

Development of cottage industries

Adoption of agricultural improvements

Secondly, the various agricultural improvements, which we have discussed before, should be adopted. These would result in increased agricultural productivity. The incomes of the cultivators would then rise. Lastly, the cultivators should be properly educated. They should be taught the virtues of thrift.

**Organisation of famine relief.** Famines cause intense suffering to a large part of the population. Many die of hunger and starvation. Cholera and other epidemic disease follow in the wake of famines. These also carry off large numbers of people. The British Government in India had never acknowledged its obligation to provide work for all the people of the country. But it had undertaken the task of providing relief to the people during famines. The measures taken by the government to combat famines can be divided into two parts,—viz ,

the immediate problem of giving relief during famines, and the ultimate measures of prevention of famines

The government takes the following measures to give relief during famines Before arrangements for relief can be undertaken, it is necessary to find out

whether a famine has occurred or not  
*Famine signals* So the government officials study the monsoon forecasts Officials in different

parts watch the actual amount of rainfall in the districts

The first signal of famines is a failure of rains, or an

excessive rainfall leading to a failure of crops When

crops fail in any part, prices of foodstuffs rise, the

number of thefts and robberies increase

*Watching the rainfall* Too many people take to begging These

are the signals for famines When

these signals become prominent, the government under

stands that a famine is approaching Then comes the

second stage The government declares its famine

policy It enlists the help of the non officials, suspends

the payment of land revenue Steps are taken to organise

public charity

*Test works* are then opened in the affected parts

The object of these test works is to find

*Test works* out whether there is famine or not If

there is famine, a large number of

people will flock to these test works These are then

converted into relief works

*The second stage* then begins The villages are

*inspected and a list of individuals*

*Poor houses* requiring relief is prepared Poor

houses are started to give free food to

the old people, the infirm and the children, i e., to all

those who cannot work



Relief is also given to the women folk and the people belonging to the lower middle classes. The able bodied men are given work and proper wages. For this purpose small public works like the construction of roads are undertaken.

To cope with the danger of an outbreak of cholera, the medical and sanitary staffs keep themselves in constant readiness.

*The last stage begins with the fall of rains in June.* The people are then transferred back to the villages where arrangements for relief are made. Distribution of *takkavi* loans. The government advances large *takkavi* loans to the cultivators to enable them to purchase seeds, cattle, etc. After the crops are harvested, the relief centres are closed. If the crops are good, there will no longer be any necessity for relief.

These are the steps taken to provide immediate relief when a famine breaks out. The government has also adopted certain measures which are designed to prevent the occurrence of famines. For this purpose, the government has constructed *protective irrigation works* so as to supply water to the fields after a failure of the rains. Secondly, the government has constructed a chain of *railways* to render the task of famine relief easier.

These will enable the government to send food quickly to the famine-stricken areas from places of plenty.

Thirdly, the government has started a fund known as the *famine insurance fund*. Every year a certain sum of money is set aside from the general revenues, and allotted to this fund. It is utilised for the purpose of

construction of protective irrigation works and railways and of actual relief operations. Lastly, the various measures for the improvement of agriculture which have been adopted by the government may be said to fall in this class. For, ultimately the problem of famines cannot be solved unless the incomes of the vast majority of the people rise from their present wretched level.

**The present food problem** India is predominantly an agricultural country. But it is one of the ironies of situation that she has to face very great difficulties in feeding her millions. She has been forced to import food grains from a long time, and it is the stoppage of these imports of food grains, coupled with some failures of crops that was responsible for the Bengal famine of 1942. Large imports of foodstuffs have created very great problems for our balance of payments.

This shortage in food supply should not be looked upon as a temporary problem. India's food problem is not the result of a temporary disequilibrium between supply and demand. It is a long term problem and is the result of the ever growing pressure of population on the food supply. In fact, even before the last world war, India has begun to import food from other countries. Many factors are responsible for bringing about such a state of affairs. In the first place, the population of the country has been increasing at a very high rate since 1921. Between 1921-31, the increase was 11 per cent; during 1931-41, the rate of increase was 14·3 per cent and for 1941-51, it is 12·3 per cent. But sown area per person has shown a steady tendency to decline. Between 1931 to 1951, sown area per person declined from 1·04 acres to ·84 acres. Moreover, the available figures point to the conclusion that the average yield of certain

food crops has also been declining during these years. Agricultural conditions have reached, more or less, a stagnant state, and the production of food crops has not, therefore, kept pace with the growing population

The situation has been aggravated by two partitions carried out since 1935. The separation of Burma from India reduced the food supplies by 1.3 million tons. It particularly affected the supply of rice in which India is more deficient than in the supply of wheat. The second partition of 1947 deprived India of large food-growing areas and it has been estimated that as a result of the establishment of Pakistan, our internal supplies of foodstuffs were reduced by 7.7 million tons.

While the position was already very serious it has been further aggravated by a series of misfortunes suffered by the country. In the states bordering Pakistan, the problem was complicated by the influx of large numbers of refugees from Pakistan. These refugees had to be fed and supported by the State Governments. Another misfortune was the continuing absence of good rains in different parts of the country, and the occurrence of flood in some areas. The failure of the monsoons for several years was responsible for the emergence of famine conditions in Bihar and some areas of South India.

There was also a shortage in food production throughout the world, especially with regard to rice. The output of rice did not keep pace with the growing needs of the world. Hence it became increasingly difficult to import foodstuffs in sufficient quantities to relieve the shortage in India. The necessity to import food created serious problems as our exports were not sufficient to pay for the imports including imports of foodstuffs.

The government has sought to deal with the problems of food shortage in various ways. In the first place, it adopted the policy of rationing of foodstuffs in short supply, thereby limiting the demand as far as possible, and thus preventing abnormal increases in food prices. Secondly, it adopted a series of measures to increase the locally available supply of foodgrains. The 'grow more food' campaigns were speeded up and government grants and prizes were given for the purpose of improving the yield of crops. As a long term measure, various multipurpose projects like the Damodar Valley Corporation, the Hirakund Dam Project etc., have been undertaken for the better irrigation of lands. When these projects will be completed, they will provide irrigation facilities for large areas and will increase the yield of crops. Lastly, government is trying to import as much food as is possible to secure from other countries of the world.

The first Five Year Plan therefore, rightly assigns the utmost importance to the development of agriculture. The shortage of foodgrains and raw materials is at present the weakest point in the economic organisation of our country. It will not be possible for India to go on for a long time importing food in large quantities from foreign countries. A real solution of the problem must come along these lines. But the problem of ever increasing population must be faced and solved by the country. It is clear that under present condition the existing rate of increase of population does not strengthen the economy but in fact weakens it. So unless the people are educated to adopt measures for the reduction of the birth rate, and so check the growth of population it will be difficult to find a real and lasting solution of the food problem.

**Community Projects** The reorganisation of the village life has always been regarded as a most pressing problem in India. Our country is essentially a land of villages, and 83 per cent of the population live in the village. It is with a view to provide a new pattern of living for the villages that the Community Projects have been adopted by the Government of India. The central aim of these Projects is to effect an all round improvement in the organisation and living in the villages. The scheme is to be applied to a number of selected villages for this purpose. At present there are 55 Projects covering 17,500 villages and 12 million people, and there are prospects of a possible doubling of the number of Projects within one year and a possible increase to 600 Projects in four years covering 120 million people.

These Projects are different from the ordinary rural reconstruction measures in that they are all embracing and multipurpose. Their concern is not with one particular aspect of the village life to the exclusion of others. They are comprehensive in character, and embrace a large variety of measures, all of which are to be carried out as an integral scheme. Since the basic problem is the extreme poverty of the people, attention is naturally given to measures designed for the purpose of raising the level of money incomes in the villages. Agriculture is the largest source of wealth in the country, and so these Projects aim at raising the level of incomes through improvement of agricultural efficiency. Hence attention is to be focussed on the adoption of measures of crop rotation, use of better quality seeds, composting of manure and such other measures. These alone will not solve the problem as they would provide no remedy for the excessive pressure of population on land. Hence these measures are to be combined simultaneously with

the establishment of industries in the villages. Each group of villages is to be linked to a centre of small and medium scale industries, which would serve to draw off the surplus population from the land. These are to be combined with such measures as the construction of adequate roads, houses, schools, dispensaries, hospitals and sanitary installations, and the establishment of adult education and recreation centres. Without a reasonable provision of these simple amenities of life, no lasting improvement in social conditions can be achieved. Provision is also made for the setting up in each Development Block of a rural township consisting of one to two thousand families, where such facilities as the bank, the high school, and the hospital etc. will be made available. These townships will provide a natural centre of gravity for the economic, social and cultural life of the block of villages. The needs of trade, industry, profession and services in these areas will open up new fields of employment for the surplus rural population. These rural-cum-urban townships are to have water works, electricity, a shopping centre, a post, telegraph and telephone office, an agricultural school, a dairy and a poultry breeding centre, a nursery, a veterinary hospital etc.

Three of those Development Blocks are to be combined to form a Project area. Each Project area will consist approximately of 300 villages and the headquarters of the Project area will be called the urban-cum-rural township. These townships will consist of a Basic Teachers' Training College, a Technical Training centre, a tractor service and supply station etc. For the present, on account of financial stringencies, the establishment of the rural-cum-urban township, and the urban-cum-rural townships will not be undertaken. In West Bengal eight Development Blocks have been established

Of these, three are in the Birbhum district, two in the Burdwan district, and one each in 24 Parganas, Midnapore district and Nadia district

An elaborate organisation is to be set up for the effective operation of the Projects. But the emphasis, throughout the programme, will be laid on the participation of the people themselves in the working of the Project. Unless mass enthusiasm is generated for these schemes, they will not take root in the soil, and will wither away the moment external support is withdrawn. The keynote of these schemes will be to stimulate the vitality of the people. The people should be inspired to look upon the Project as their own, not as something foreign thrust upon them by outsiders. If they think in that way, they will begin to recover their confidence and put forth their own efforts for their upliftment.

The expenses of operating one rural Community Project of the basic type have been estimated to amount to 65 lakhs of rupees. Of this amount the dollar expenditure will be about Rs. 6.5 lakhs and this will be provided by the government of the U.S.A., which will also provide some technical assistance such as the services of specialists in agriculture, education, health and other spheres.

The success of these Projects will depend largely upon the personnel chosen to operate the schemes, and on the degree of enthusiasm which is roused among the people themselves. The officials who are to work the Projects would have to learn to enter into their spirit and to leave the maximum of initiative and action to the villagers. They must be able to guide the people without destroying latter's initiative. These qualities are difficult to find and to instil.

## CHAPTER 20

### FIVE-YEAR PLANS

Economic planning has become one of the most popular concepts in recent times. An economic plan refers to a series of proposals formed by a central authority for developing the economic resources of a country in a systematic manner. Its aim is generally

to raise the standard of living of the people. An economic plan involves the following points. First, there should be a central authority which should form the plan of development. Secondly, the plan should contain proposals or schemes whose aim would be to secure a simultaneous and co-ordinated development of the agricultural, mineral and industrial resources of the country. Lastly, these proposals or schemes are formed for increasing the total production as well as for securing a better distribution of the wealth of the country.

In the capitalist system, there is, under ordinary conditions, no authority to plan the development of the resources of the country. Each businessman is free to start any factory or to develop any business he likes. There is nobody to secure a systematic development of the resources. This fact causes a great economic waste.

Businessmen will generally produce only those goods which are likely to bring them large profits. But they may not produce those goods which are necessary to promote the welfare of the people. Hence it is essential to form an economic plan to secure an all-round development of the resources. The necessity of forming an economic plan for India has long been obvious. The poverty of the masses of India is well known. It is a common saying

What is an economic plan?

Necessity of a plan



that India is a rich country inhabited by a poor people. Her large resources remain, more or less, unexplored. In 1938, the Indian National Congress appointed a National Planning Committee for the purpose of formulating an economic plan for the country. The Committee issued a number of valuable reports on the various aspects of our economic system. After the achievement of independence in 1947, the Government of India set up a Planning Commission in 1950. This Commission first published a Draft Five Year Plan in 1951 and invited the opinions of all sections of the people on this plan. The Final Five Year Plan has been published in December, 1952.

**The First Five Year Plan** The Five Year Plan, published in December 1952, was the first of a series of plans which were expected to double the per capita of the people of India in 27 years. It proposed to spend a total sum of Rs 2,069 crores over the five years, years, 1951-52 to 1955-56, for the development of the resources of the country. This sum was to be spent in the following way:

TABLE I  
(In crores of rupees)

	<i>Expenditure during 1951-56</i>	<i>Percentage of the total expenditure</i>
1 Agr culture and Community Development	361	17.5
2 Irrigation and power	561	27.1
3 Transport and Communications	497	24.0
4 Industry	173	8.4
5 Social Services	340	16.4
6 Miscellaneous	83	4.1
7 Others	52	2.5
	2069	100

In other words, out of the total sum of Rs 2,069 crores, Rs 922 crores, i.e., 44.6 per cent, were to be spent on the development of agriculture and irrigation, and only Rs 173 crores would be spent on the development of industries. The plan, therefore, attached very great importance to the development of agriculture. This was as it should be. India is in the main an agricultural country, and about 70 per cent of her population depend on agriculture for their livelihood. Hence the incomes of the majority of the people cannot be raised unless the production of agricultural goods increases. Secondly, agriculture is a basic industry as it supplies food stuffs of the people and raw materials for the industry. The Commission estimated that with the development of agriculture, the supply of foodgrains would increase from 52.7 million tons in 1950-51 to 61.6 million tons in 1955-56, that of raw cotton from 29.7 lakh bales in 1950-51 to 42.2 lakh bales in 1955-56, production of raw jute from 33 lakh bales to 53.9 lakh bales and sugarcane from 5.6 million tons to 6.3 million tons, etc.

For the improvement of agricultural production, the plan provided for increased irrigation facilities, the application of manures and fertilisers, and the supply of better seeds. New irrigation projects proposed in the plan, including those like the Damodar Valley Project, Hirakud and Dam Project etc., would increase the irrigated area from 50 million acres to 69.7 million acres. The plan also recognised that the organisation of agriculture must also be improved. So it recommended that the farmers should be encouraged and assisted by the government to form co-operative farming societies. It also recommended the adoption of Community Development Schemes which were to become the agency for the

transformation of the social and economic life of the villages

The development of industries was to be left mainly to private enterprise, and the government would undertake to develop only a small number of basic industries, for example, the setting up of a new iron and steel project. The private businessmen were expected to invest the sum of Rs 233 crores for the development of various industries of which petroleum refineries, cement, aluminium, heavy chemicals etc., were important. Emphasis was to be laid on the development and encouragement of small industries, especially village industries. The government should assure the supply of controlled raw materials to cottage industries. The plan proposed to set up a Central Institute for research on the problem of village industries.

The Plan also provided for the expansion of primary, secondary, technical and vocational education. As a result of the expenditure proposed in the plan, the number of primary schools would increase by 17 per cent, that of secondary schools by 18 per cent, and 57 per cent in the case of technical and vocational institutes. There would also be increased expenditure on medical services and on public health. In addition, money was to be spent on malaria control and for the treatment of tuberculosis and other diseases.

How was this money to be raised? The Plan estimated that the central government and the various State governments would be able to raise a surplus revenue of Rs 738 crores during the five years. The government would collect another Rs 520 crores by floating loans among the public, or through the sale of National Savings Certificates etc. These two sources

would yield Rs 1,258 crores. The government had already got financial help from the U S A, Canada, Australia, New Zealand and the International Bank to the extent of Rs 156 crores. Thus out of Rs 2,069 crores to be spent, Rs 1,414 crores would be raised in this way, leaving a gap of Rs 655 crores. This sum was to be raised through either foreign aid or through additional taxation and borrowing. If these sources were not sufficient to raise the sum required, then the government would have to take recourse to what was known as "deficit financing," i.e., meeting the deficit by printing paper currency notes.

When this sum of money would be spent, the national income of the country would increase by 11 per cent at the end of 1956. But as during these five years, the population of the country is expected to increase by 6.5 per cent, the actual per capita income would increase by a little over 4 per cent over this period, which was certainly not a perceptible increase.

The Five Year Plan was certainly a well reasoned scheme, and marked a substantial improvement over the proposals made in the Draft Five Year Plan. It was basically correct as it gave topmost importance for agricultural development. Though the expenditure on industries was increased in the Final Plan over that in the Draft Plan, there were people who felt that a greater pace of industrial development ought to have been provided for in the proposals. The Plan was no doubt modest. But it marked only the beginnings of a series of plans. Modest beginnings do not always connote small end results.

**Progress of the First Five Year Plan** The first plan period ended in March, 1956, and the country is

now busy with the Second Plan. What have been the achievements of the First Five Year Plan? Though five years are gone, statistics relating to the progress of the Plan have been published only for four years. So we propose to examine the progress of the First Five Year Plan in the first four years of its operation.

There is no doubt that the Indian economy has made remarkable advance in these years. Some of the targets laid down in the plan have already been reached by the end of 4 years. For example, the first plan proposed to increase the output of food grains by 7.60 million tons in five years. At the end of 4 years, the production of food grains increased by 11.60 million tons. The target for the production of raw cotton was set at 1.26 million bales whereas in 4 years, its output has increased by 1.39 million bales. Similarly, it was proposed to secure an increase in the production of cloth by cotton mills by 982 million yards. But in four years the output of cloth increased by 1328 million yards. In certain other <sup>or</sup> of production, the targets of production are nearing fulfilment. There has also been good progress on the industrial front. Five of the major state enterprises, viz., the Hindustan Cable Factory at Rupnarainpur, the Hindustan Machine Tools Factory at Julahatti, the Penicillin Factory at Pimpri, the U. P. Government's Cement Factory and the M. P. Government's Newsprint Factory have already started production from the year 1954-55. Some entirely new products have been produced for the first time in this country.

While these are all good features, there are sectors where the actual production has fallen far short of the targets. Thus the output of finished steel, jute manufactures etc. has increased by comparatively smaller percentages. The increase in the area under irrigation

in five years was planned at 19·7 million acres. But actually it increased by only 10·30 million acres in 4 years. Another bad sign is the increase in the volume of unemployment in the country. Unemployment has increased both in the urban and the rural areas. To cope with this situation, the government revised the plan and adopted new schemes costing about Rs. 300 crores designed specially to cope with the problem of unemployment.

In spite of these drawbacks, the Planning Commission has estimated that by the end of 5 years, the national income of the country would increase by about 18 p.c. in the place of the estimate of 11 p.c. included in the Plan. Per capita incomes would also have increased by about 10 p.c. during this period. The first Plan may, therefore, be said to have strengthened the economy a good deal and has thus set the stage for a bolder pace of development.

**The Draft Second Plans** It is against the background of these factors that the Planning Commission proceeded to draw up the Second Five Year Plan. The First Plan was to end by March, 1956, and about a year before that period, a Draft Planframe, based on a draft prepared by Prof. P. C. Mahalanobis, was published. It was felt that time had arrived for increasing the planned expenditure considerably beyond that incurred during the first Plan. The planframe, therefore, provided for a total expenditure of Rs. 4,400 crores in the public sector, and Rs. 2,000 crores in the private sector. This would cause a rise in the national income by 25 p.c. over the next five years, i.e., at the rate of 5 p.c. per year, and provide new jobs for about 10 million people. As agricultural output has considerably increased, more attention was to be given to the development of industries. As

industries cannot be set up without machines, the plan frame provided in the first instance for large investment expenditure on the development of machinery industries and other basic industries like iron and steel etc. At the same time greater attention was to be given to the development of household and handmade industries which would be expected to produce all the additional consumer's goods that would be needed in the next five years. The development of such industries would require only small amounts of capital and at the same time provide more jobs for the people.

These provisions of the draft planframe were widely discussed and the Planning Commission circulated another volume called the Draft Second Plan. In this plan the total investment expenditure was further increased to Rs 4800 crores even though a number of economists expressed the fear that the financing of the draft planframe would be beyond our present resources, and would involve inflationary rise in prices. Otherwise the main outlines of the draft planframe remained almost the same in the draft second plan.

**The Second Plan** The final version of the Second Five Year Plan was presented to the Parliament in May 1956. It provided for a total expenditure of Rs 4800 crores in the public sector and Rs 2400 crores in the private sector making a grand total of Rs 7200 crores in the next five years. The objectives of this plan are to raise the national income of the country by 25 per cent in the next five years and to provide new jobs for about 10 to 11 million people. After the Second Plan is over, the economic condition of the country would improve to such an extent that we would be able to increase the rate of investment expenditure so as to double the